2016-1683

United States Court of Appeals for the Federal Circuit

NET TALK.COM, INC., a Florida corporation,

Plaintiff—Appellee,

v.

MAGICJACK VOCALTEC LTD., an Israel limited partnership, MAGICJACK HOLDINGS CORPORATION, a Delaware corporation, fka YMax Holdings Corporation, MAGICJACK LP, a Delaware limited partnership,

Defendants—Appellants,

MICHELE BORISLOW, Personal Representative of the Estate of Daniel Borislow,

Defendant.

Appeal from the United States District Court for the Southern District of Florida in Case No. 9:12-CV-81022, Hon. Darrin P. Gayles.

CORRECTED OPENING BRIEF FOR DEFENDANTS-APPELLANTS MAGICJACK VOCALTEC LTD., MAGICJACK LP, AND MAGICJACK HOLDINGS CORPORATION F/K/A YMAX HOLDINGS CORPORATION

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JULY 8, 2016

CERTIFICATE OF INTEREST

Counsel for the Defendants-Appellants magicJack VocalTec Ltd., magicJack LP, and magicJack Holding Corporation f/k/a YMAX Holdings Corporation certifies the following:

1. The full name of every party or amicus represented by me is:

   magicJack VocalTec Ltd., magicJack LP, magicJack Holding Corporation f/k/a YMAX Holdings Corporation, Daniel Borislow, and Michele Borislow

2. The name of the real party in interest (Please only include any real party in interest NOT identified in Question 3) represented by me is:

   The parties listed in Question 1 above are the real parties in interest. magicJack VocalTec Ltd. is a publicly held corporation and has no parent company. There is no publicly held corporation that owns ten percent (10%) or more of magicJack VocalTec's stock. magicJack LP is a limited partnership whose general partner is magicJack Holdings Corporation, which is a wholly owned subsidiary of magicJack VocalTec Ltd. Mr. Daniel Borislow was sued in his individual capacity. Ms. Michele Borislow is the personal representative of the Estate of Daniel Borislow and was substituted in this action as defendant after Mr. Borislow's death in July 2014.

3. Parent corporations and publicly held companies that own 10 percent or more of the stock in the party:

   Not applicable

4. The names of all law firms and the partners or associates that appeared for the party or amicus now represented by me in the trial court or agency or are expected to appear in this court (and who have not or will not enter an appearance in this case) are:

   FENWICK & WEST LLP: Virginia K. DeMarchi, Elizabeth J. White, Saina S. Shamilov, Earl Mah, Justin Hulse

   RASCO KLOCK REININGER PEREZ ESQUENAZI VIGIL & NIETO: Janet T. Munn

   ACKERMAN LLP: David S. Brafman, Mark D. Passler, Brian Miller

   VINSON & ELKINS LLP: Ajeet Pai, Chris Granaghan, Puneet Kohli

Dated: JULY 8, 2016

/s/ Darryl M. Woo
DARRYL M. WOO
VINSON & ELKINS LLP

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STATEMENT OF RELATED CASES

Counsel for Defendants-Appellants magicJack VocalTec Ltd., magicJack LP, and magicJack Holding Corporation f/k/a YMAX Holdings Corporation ("magicJack") are unaware of other appeals or cases in this or another court that will directly affect or be directly affected by this appeal.

JURISDICTIONAL STATEMENT

The United States District Court for the Southern District of Florida ("District Court") had jurisdiction of this patent action pursuant to 28 U.S.C. §§ 1331 and 1338(a). Plaintiff-Appellee Net Talk.com, Inc. ("netTalk") filed this action on September 21, 2012, alleging patent infringement under 35 U.S.C. § 271. (Appx70-80). On netTalk's own motion, and unconnected with any settlement, (Appx1618-25), the District Court issued a Final Judgment on February 27, 2015, dismissing netTalk's claims with prejudice and reserving jurisdiction to determine attorneys' fees and costs, (Appx29).

After the dismissal of netTalk's claims, magicJack filed a Motion for Attorneys' Fees Pursuant to 35 U.S.C. § 285 ("Motion for Attorneys' Fees"). (Appx1718-42). The District Court referred that motion to Magistrate Judge William J. Turnoff ("Magistrate Judge"), who issued a Report and Recommendation on November 20, 2015 ("Report"). (Appx4-28). The Report recommended that magicJack's Motion for Attorneys' Fees be denied. (Appx27).

The District Court affirmed and adopted the Report and, accordingly, denied magicJack's Motion for Attorneys' Fees on February 9, 2016. (Appx1-3). The District Court then entered a Final Judgment in favor of magicJack, awarding magicJack costs on March 1, 2016. (Appx30). On March 8, 2016, magicJack filed a timely notice of appeal from the District Court's February 9, 2016, Order and March 1, 2016 Final Judgment. (Appx2611). netTalk has not filed a notice of appeal or cross-appeal, and the time to do so has passed. Fed. Cir. R. 31(a); *see also* Fed. Cir. R. 28.1 Practice Notes. Appellate jurisdiction is vested in this Court under 28 U.S.C. § 1295(a)(1).

ISSUES PRESENTED

1. Whether the District Court abused its discretion in denying magicJack's Motion for Attorneys' Fees where, after amending the asserted patent claim in reexamination, netTalk maintained a baseless infringement claim, pursued a baseless $200 million damages claim, and litigated the case in an attempt to extract an unfair settlement, or at least cause its competitor to incur needless legal expense, rather than pursue the case on its merits.

2. Whether the District Court abused its discretion by failing to assess the "totality of the circumstances" as required by *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S. Ct. 1749, 1756 (2014), instead considering only the merits of netTalk's baseless infringement claim and litigation

misconduct separately and in isolation, and entirely failing to consider the baselessness of netTalk's $200 million damages claim.

3. Whether the District Court abused its discretion to the extent it required magicJack to have sought discovery sanctions and/or Rule 11 sanctions as a prerequisite to an exceptional case finding and an award of attorneys' fees.

STATEMENT OF THE CASE

netTalk filed this action on September 21, 2012, against its main competitor, magicJack, and magicJack's founder and CEO, Mr. Daniel Borislow in his individual capacity, asserting infringement of U.S. Patent No. 8,243,722 B2 (the "B2 Patent"). (Appx70-72, Appx156-59).

The B2 Patent relates to devices called Analog Telephone Adapters ("ATAs"). (Appx1758 at col. 1:61-65). Both netTalk and magicJack provide ATAs and related services. (Appx156-57, Appx161). Generally, an ATA allows users to make telephone calls over the Internet using a traditional, analog telephone. (Appx156-57; Appx1758 at col. 1:6-20, 1:61-65).

The B2 Patent claims a system using a particular type of ATA that enables its various functions. (Appx1759 at cols. 3:64-4:1). A telephone is plugged into one end of the ATA of the claimed invention, and the other end of the ATA is plugged into a personal computer, or directly into a modem or router. (Appx1758 at col. 2:27-35). Once connected, the ATA uses prior art Voice over Internet

Protocol ("VoIP") technology to place and receive telephone calls over the Internet instead of the traditional public switched telephone network. (Appx1758 at cols. 1:22-60, 2:18-23).

Figure 5 of the B2 Patent shows a telephone (30) connected to an ATA (31), which in turn is connected to a personal computer (32) connected to the Internet via a modem (33). (Appx1759 at col. 4:32-49).

30
31
32
33
INTERNET

FIG. 5

(Appx1756). As shown in Figure 6, the ATA (41) alternatively can be plugged directly into a modem or router (43) without a personal computer. (Appx1759 at col. 4:50-63).

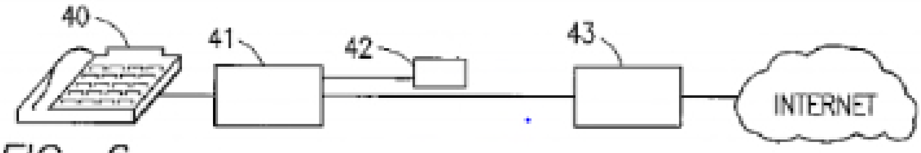

FIG. 6

(Appx1756).

A. netTalk's Infringement Testing, Reexamination Amendments, and Continued Infringement Allegations

Three months after the Complaint was filed, the District Court stayed the lawsuit pending the outcome of an *ex parte* reexamination of the B2 Patent. (Appx152-55). During that reexamination, netTalk significantly amended the B2

Patent claims to save them from cancellation. (Appx5, Appx1749-51). All told, netTalk added 126 words to claim 3, the only claim netTalk asserted against magicJack, including the addition of a number of new claim limitations. (Appx1750-51 at cols. 1:11, 2:22-3:13; Appx1781-82).

The reexamination certificate issued on February 27, 2014, as U.S. Patent No. 8,243,722 C1 ("Reexamined Patent"), (Appx1749), with netTalk's extensive amendments shown in italicized font on its face:

> 3. A Voice over Internet Protocol (VoIP) telephone system that enables VoIP telephony and facsimile services allowing a user to gain access to telephone connectivity between an analog handset telephone and the [I]nternet, said system having multiple separate and independent [I]nternet access connections for connecting to the [I]nternet, each separate [I]nternet connection selectable by the user comprising:
>
> an analog telephone for transmitting and receiving sound; an analog telephone adapter (ATA) comprising a rigid housing, said housing containing a central processor, a non-transitory storage medium, a memory source, a network interface card (MC), said ATA housing having at least one USB port, an Internet input, and a telephone port;
>
> said analog telephone connected to said ATA telephone port for transmission and receipt of electronic signals from the ATA;
>
> said ATA being configured *for multiple separate and independent [I]nternet access connections wherein each of the separate internet connections is selectable by the user,*
>
> *said ATA providing plug-in-play functionality, wherein the plug-in-play functionality allows the ATA to auto configure to use an Internet access connection selected by the user; and*

wherein the plug-in-[p]lay functionality allows the ATA to auto configure to use an internet access connection without a computer connection; and

wherein the Internet connection provided by the ATA comprises a multi-port plug-in-play approach, to optionally be connected by a user to either a first [I]nternet access connection or a second different internet access connection and to a switched telephone network through the internet such that it can transmit and receive telephone calls from other telephone handsets[;]

without the analog telephone being wired through a PSTN wherein the ATA automatically detects a type of [I]nternet connection selected by the user, which connection is automatically detected without a computer connection; and

wherein the ATA auto configures to operate using the user selected Internet connection;

said system having said first [I]nternet access connection including said ATA connected to a computer, a USB cord connected to said computer and to said USB port in said analog telephone adapter, a modem connected to said computer, and said modem connected to said [I]nternet;

said system having said second different [I]nternet access connection including said ATA connected to a USB electronic plug adapter, a USB plug cord connected to said USB plug adapter and said analog telephone adapter (ATA) USB port, an Ethernet cord, a router connected directly or indirectly to said Ethernet cord, said analog telephone adapter connected to said Ethernet cord, said

modem connected to said [I]nternet, said analog telephone adapter powered by said USB plug adapter; and

whereby a user of said analog telephone can call other telephone handset users over the internet using said first [I]nternet access connection or said second [I]nternet access connection using said ATA.

(Appx1750-51 at col. 2:22-3:13 (amendments indicated in original); Appx1781-82)).

When the District Court lifted the stay on February 5, 2014, netTalk continued to litigate its claims against the three magicJack corporate defendants here and Mr. Borislow. (Appx5, Appx156-59). netTalk filed an Amended Complaint on March 20, 2014, alleging that magicJack and Borislow infringed both the original B2 Patent and the Reexamined Patent. (Appx5, Appx156-70). Notwithstanding the extensively amended claims, netTalk pleaded in its Amended Complaint that "[t]he claims of the [B2] Patent were not substantively changed during the Reexamination Proceeding." (Appx157; *see also* Appx167-68).

To the contrary, among the amendments, netTalk added language requiring an "Internet connection provided by the ATA" to asserted claim 3 of the Reexamined Patent. (Appx10, Appx12-13, Appx1750 at col. 2:49). None of the parties asked the District Court to construe this claim limitation, though the District Court conducted a claim construction hearing for other terms. (Appx6, Appx12-13, Appx265-83, Appx319-44, Appx772).

Later, during discovery, netTalk's Chief Technical Officer and Rule 30(b)(6) witness, Garry Paxinos, testified that, in 2012, around the time this lawsuit was filed, he tested the accused magicJack ATA device to see if it infringed (Appx1829, Appx1832-33). It did not. Mr. Paxinos admitted that, rather than provide an "Internet connection," the accused magicJack ATA device was essentially only a "sound card" that "provides audio services, audio in and audio out," and that there are "no Internet format packets going back and forth between the magicJack Plus and the PC."[1] *Id.*

Consequently, when netTalk amended the asserted claim in reexamination, in view of its earlier 2012 "sound card" testing result and the plain language of the amended claim, netTalk knew or at least should have known there was not, and could not be any infringement of the Reexamined Patent because there was no "Internet connection provided by the ATA." (Appx11-12, Appx1750 at col. 2:49, Appx1722-25, Appx1837-39).

As for its infringement claim against Mr. Borislow, netTalk proceeded on an inducement of infringement theory, despite the fact that Mr. Borislow had ended all ties and activities on behalf of magicJack by November 2013, (Appx163), well before the Reexamined Patent issued on February 27, 2014, (Appx1749). netTalk never explained how Mr. Borislow could have possibly induced infringement occurring after the Reexamined Patent issued, when all of his actions that netTalk

[1] As more fully set forth below, Mr. Paxinos's testing also confirmed the noninfringement of a second claim limitation in light of the District Court's claim construction. Such did not affect the *ab initio* noninfringement (at least from issuance of the Reexamined Patent) of the "Internet connection provided by the ATA" limitation, however, as netTalk relied on its plain meaning and none of the parties requested its construction.

alleged induced infringement took place before the Reexamined Patent issued. (Appx163). The answer is that there could be no such liability.[2]

Yet, netTalk continued to assert its infringement claims against him, and later, after his untimely passing in July 2014, against his wife who was the executor of his estate. (Appx1095-96, Appx1164-65, Appx1849-50).

B. netTalk's Damages Allegations

From the outset of the lawsuit, netTalk claimed it was entitled to over $200 million in damages.[3] (Appx78). Its damages claim was founded on a theory of provisional rights under 35 U.S.C. § 154(d). (Appx13, Appx77-78, Appx167-68). Under 35 U.S.C. § 154(d), an applicant for a patent may obtain reasonable royalty damages extending back to the date of publication of the application for the patent, but only if the claims of the final issued patent are "substantially identical" to those in the published patent application, and only if the accused infringer had actual notice of the published application. 35 U.S.C. §154(d); *Rosebud LMS, Inc. v. Adobe Sys. Inc.*, 812 F.3d 1070, 1073, 1075 (2016). Under this doctrine, netTalk claimed it was owed a reasonable royalty going back to June 4, 2009, the date the application for the B2 Patent published, because it pleaded that: "The claims in the '722 Patent are substantially identical to the claims in the published '851 Application." (Appx77-78; *see also* Appx167, Appx1763). On their face, however, the claims in the patent application for the B2 Patent are substantially different from the claims in the issued B2 Patent. *Compare* (Appx1770-71) *with* (Appx1760-61); *see also* (Appx1773-76).

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[2] Mr. Borislow unexpectedly passed away on July 21, 2014, (Appx6, Appx72, Appx1849), and netTalk substituted his wife, Michele Borislow (the personal representative of the Estate of Daniel Borislow), for Mr. Borislow as a defendant in this action, (Appx1095-96, Appx1164-65, Appx1849-50). netTalk's Complaint alleged that Mr. Borislow supposedly induced and contributed to the infringement of the B2 Patent because he was the CEO of magicJack, inventor of the accused magicJack products, and was "actively involved" in the promotion of those products while with the company. (Appx72, Appx107). Both induced infringement and contributory infringement, however, required netTalk to plead and prove that Mr. Borislow personally committed the acts constituting the alleged induced or contributory infringement—and not merely that he happens to be the CEO of a company that is alleged to have done so. (Appx107); *see also Wechsler v. Macke Int'l Trade, Inc.*, 486 F.3d 1286, 1292, 1295 (Fed. Cir. 2007); *Hoover Group, Inc. v. Custom Metalcraft, Inc.*, 84 F.3d 1408, 1412 (Fed. Cir. 1996). Mr. Borislow, moreover, had ended all ties and activities on behalf of magicJack by November 2013, (Appx163), well before the case resumed in February 2014, (Appx44). As a result, Mr. Borislow could not have induced infringement of the Reexamined Patent. The magicJack Defendants thus filed a Motion to Dismiss as to Mr. Borislow. (Appx198-216). The motion was granted in part, but the case was allowed to proceed solely on an inducement theory despite the lack of any alleged (or proven) post-Reexam Patent issuance conduct by Mr. Borislow. (Appx316-18).

[3] netTalk pleaded in its original complaint that magicJack and Mr. Borislow had

After the Reexamined Patent issued, netTalk continued to claim entitlement to $200 million in damages, again reaching back to 2009,[4] (Appx167-68,

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"profited substantially from their willful infringement" and that the profits from their alleged willful infringement, "when trebled, exceed[ed] $200 million." (Appx78).

[4] For example, on November 12, 2014, netTalk filed a claim against the Borislow estate in the unsecured amount of $200 million. (Appx1162, Appx1231, Appx1446, 1849-50).

Appx1208), despite well-settled law providing that netTalk could not claim damages from the issue date of the B2 Patent, let alone the publication of the provisional application, due to the substantial differences between the Reexamined Patent and the B2 Patent claims. *See* 35 U.S.C. § 252; *Laitram Corp. v. NEC Corp.*, 163 F.3d 1342, 1346 (Fed. Cir. 1998) (citation omitted) ("A patentee of a reexamined patent is entitled to infringement damages…for the period between the date of issuance of the original claims and the date of issuance of the reexamined claims if the original and reexamined claims are 'identical.' Reexamined claims are 'identical' to their original counterparts if they are 'without substantive change.'"). And, despite the substantial differences among the claims in the Reexamined Patent, the B2 Patent, and its published application, netTalk nonetheless pleaded that it was entitled to such damages because "[t]he claims in the Reexamination Certificate were not substantively changed from the claims in the [B2] Patent, which are, themselves substantially identical to the claims in the published '851 Application." (Appx167).

Given the magnitude of netTalk's claimed damages and how that amount could not possibly have been asserted in good faith in view of the substantial differences in claim language between the published application for the B2 Patent and the originally issued B2 Patent, magicJack moved to dismiss netTalk's claims to provisional rights in its original complaint on November 11, 2012. (Appx114-

17; Appx147-49; Appx1206). That motion was pending when the District Court stayed the case pending reexamination of the B2 Patent. After netTalk made similar allegations again in its Amended Complaint, (Appx167), this time after its extensive reexamination amendments, magicJack sought leave to file a summary judgment motion on July 17, 2014. (Appx691-96). In particular, magicJack sought to challenge netTalk's $200 million damages claim because a ruling under the doctrine of intervening rights could reduce the scope of the case by precluding netTalk from recovery of damages for infringement occurring before the Reexamined Patent issued. (Appx691-92). The District Court, however, denied leave. (*See* Appx14).

After Mr. Borislow unexpectedly passed away on July 21, 2014, and after having been put on notice of the lack of any reasonable basis for the amount of their damages claim, netTalk filed a claim against his estate for the same $200 million amount based on the infringement claims it knew were bogus. (Appx1849-50). As a result, his widow, Ms. Michele Borislow, could not access any of the estate's assets for her children despite never having been alleged to have infringed or induced any infringement. *Id.*

C. netTalk's Post-Reexamination Litigation Conduct and Dismissal of Its Own Claims

Because of the District Court's "one summary judgment motion" rule and its expressed desire to only consider summary judgment motions after discovery,[5] magicJack was forced to continue to expend resources to meet court-ordered deadlines, lest they default on an alleged $200 million claim, while netTalk was able to withhold documents and flout discovery deadlines, doing the minimum it could to incur litigation expenses.

netTalk repeatedly drew defendants into deposition preparatory efforts, and, after having ensured defendants' investment of time and resources, unilaterally canceled such discovery. For example, netTalk feigned discovery late in the case by noticing magicJack's Chief Financial Officer and CEO for depositions on December 3, 2014, and December 4, 2014, respectively. (Appx1364-65, Appx1432, Appx1542). About a week before those depositions, however, and after magicJack had already spent a significant amount of time and resources

[5] Local Rule 7.1(c)(2) provides that "[f]iling multiple motions for partial summary judgment is prohibited, absent prior permission of the [District] Court." When magicJack sought leave to challenge netTalk's baseless damages claim on summary judgment, (Appx691-96), Judge Gayles stated that he would prefer to address summary judgment in a single motion to be filed only after the completion of discovery. (Appx2467) ("[I]n this case, I'd prefer that there be one motion and I'll consider it together . . . . I don't feel comfortable handling it piecemeal. I prefer to deal with the motion, handling all the issues together.").

preparing its witnesses for those depositions, netTalk unilaterally canceled both depositions. (Appx1432, Appx 1439). netTalk never rescheduled or noticed any other depositions.

netTalk likewise unilaterally and repeatedly cancelled the depositions of two of its witnesses, Mr. Takis Kyriakides and Mr. Kenneth Hosfeld—both of whom were named inventors, netTalk executives, and Rule 30(b)(6) designees—despite magicJack having properly noticed the depositions on dates that netTalk stated those witnesses would be available. (Appx1163, Appx1172-95, Appx1370-73, Appx1375-79; Appx1432-39). Only two days before the first of those depositions, netTalk postponed them. (Appx1197-99). The parties rescheduled, but netTalk again announced on November 26, 2014—only two weeks before the close of fact discovery—that it would not present its remaining witnesses for their noticed depositions. (Appx1201-02). By that time, magicJack had already incurred significant resources preparing documents, exhibits, and arranging travel for those depositions. netTalk refused to reschedule the depositions or provide alternative dates. (Appx1439).

More dramatically, just three days before the parties were to exchange expert reports—and after magicJack had substantially completed its expert reports for exchange—netTalk announced it would not serve any expert reports of its own, without requesting any amendment of the court-ordered deadline. (Appx1163, Appx1201, App1348, Appx1357, Appx1370-71, Appx1725-26, Appx1733-34, Appx1852). netTalk, of course, did not have to wait until the last minute to tell magicJack that it would not serve expert reports. Indeed, on November 26, 2014, magicJack had reached out to netTalk to confirm whether it intended to serve expert reports, but netTalk did not respond until three days before the expert reports were due (Appx1201). By the time magicJack heard from netTalk, it was already too late for magicJack to avoid the expense of preparing reports to address netTalk's $200 million claim. magicJack was forced to move for an extension of time to serve its own expert reports to avoid the strategic disadvantage of unilaterally serving its reports and exposing magicJack's experts' positions while not receiving the commensurate benefit of having netTalk's positions. (Appx1216-18, Appx2603).

And, as of the date discovery first closed on December 10, 2014, netTalk had still not produced basic documents and interrogatory responses. (Appx1473-75).

netTalk eventually sought to excuse its conduct on the basis that it was in the process of hiring new lawyers. (Appx2237). However, even after it found new counsel in January 2015, netTalk's pattern of misconduct continued.[6] On

[6] Even as netTalk's new counsel, Mr. McAndrews, announced his intent to appear in January 2015 and held himself out as netTalk's attorney, Mr. McAndrews never

January 1, 2015, the District Court ordered netTalk to provide all outstanding discovery by March 2, 2015, and moved the trial date three and a half months after the previously scheduled trial date. (Appx1456). magicJack repeatedly asked netTalk's new counsel when netTalk would provide the court-ordered discovery, but netTalk's new counsel ignored magicJack's correspondence. (Appx1470, Appx1480-83, Appx1551-73). Finally, on February 4, 2015, netTalk promised that the court-ordered discovery would be forthcoming. (Appx19, Appx1575). netTalk, however, never provided the discovery it was ordered and had promised it would produce. (Appx1605). Though depositions of netTalk witnesses Mr. Kyriakides and Mr. Hosfeld were *again* scheduled for mutually agreed-upon dates pursuant to the District Court's revised scheduling order, netTalk *again* cancelled them by refusing to appear, *one day before they were scheduled to begin*. (Appx1952-53, 1956-57).

After having conducted no discovery of its own, having neither prepared nor served any expert reports, all the while forcing magicJack to incur significant expenses (even as netTalk minimized its own expenses) to defend an oversized $200 million claim for a patent it knew was not infringed from at least the February 27, 2014, Reexamined Patent issue date, netTalk unilaterally granted magicJack a covenant not to sue and filed a motion to dismiss its own case for lack

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entered a formal appearance until July 23, 2015, after the District Court had already issued its Final Judgment. (Appx66).

of subject matter jurisdiction on a "walk-away" basis on February 26, 2015. (Appx1618-25). The District Court dismissed netTalk's claims with prejudice the following day and reserved jurisdiction to determine attorneys' fees and costs. (Appx1710). Though previously claiming its $200 million patent infringement claim was legitimate, netTalk never pursued any appeal of the dismissal or review of any adverse claim construction. This appeal resulted from the District Court's refusal to find an exceptional case under Section 285, and refusal to award magicJack any portion of its more than $2 million in attorneys' fees.

D. magicJack's Motion for Attorneys' Fees Under 35 U.S.C. § 285

Following the dismissal of netTalk's claims, magicJack moved for attorneys' fees pursuant to 35 U.S.C. § 285, (Appx1718-40), and for its costs pursuant to Fed. R. Civ. P. 54(d). (Appx1). The District Court referred both matters to Magistrate William J. Turnoff. (Appx1). Following a hearing on August 18, 2015, Magistrate Judge Turnoff issued a Report and Recommendation ("Report"), recommending that the District Court deny magicJack's Motion for Attorneys' Fees and grant-in-part and deny-in-part magicJack's Bill of Costs. (Appx4-28).

magicJack's Motion for Attorneys' Fees raised three issues: (1) netTalk's baseless infringement claims; (2) netTalk's baseless claims to $200 million in damages; and (3) netTalk's pattern of litigation misconduct. (Appx1727).

With regard to its baseless claims of infringement, netTalk's opposition to magicJack's Motion for Attorneys' Fees entirely failed to address the merits of the "Internet connection provided by the ATA" limitation, even though this claim limitation did not depend on claim construction and, based on netTalk's own testing of the accused magicJack products by Mr. Paxinos, netTalk knew or at least should have known after the Reexamined Patent issued that magicJack could not have infringed this claim. (Appx12-13, Appx2230-33).

Instead, netTalk argued its claimed good faith belief that another limitation, the "multiple separate and independent [I]nternet access connections" limitation, was infringed. (Appx2230-33). But while netTalk's position on that limitation was also unreasonable, it mattered not for purposes of Section 285, since the absence of a single limitation is all that is required to prove noninfringement. *See, e.g., TIP Sys., LLC v. Phillips & Brooks/Gladwin, Inc.*, 529 F.3d 1364, 1376-79 (Fed. Cir. 2008); *Chimie v. PPG Indus., Inc.*, 402 F.3d 1371, 1376 (Fed. Cir. 2005) (holding that summary judgment of noninfringement may be granted if one limitation of the claim in question does not read on an element of the accused product); *TechSearch, L.L.C. v. Intel Corp.*, 286 F.3d 1360, 1369 (Fed. Cir. 2002) ("Summary judgment of noninfringement is . . . appropriate where the patent owner's proof is deficient in meeting an essential part of the legal standard for infringement, because such failure will render all other facts immaterial."). As such, the circumstances surrounding netTalk's knowledge of the absence of the "Internet connection provided by the ATA" limitation provided sufficient basis alone for an exceptional case finding. (Appx1728-30).

As to the "multiple separate and independent [I]nternet access connections" limitation, netTalk argued for a construction that this limitation referred to both direct *or indirect connections* that were not limited to internet access points in the housing of the ATA. (Appx10-12, Appx2230-33). However, in order to overcome the examiner's prior art-based rejection during reexamination, netTalk's expert submitted a sworn declaration taking the opposite view in order to distinguish the claimed invention:

> [W]hile there may be several types of connection used with the [prior art device], there is only one internet access point in the housing. Thus there are not "multiple separate and independent internet access connections' as claims in claims 1-3 of the '722 Patent, as amended."

(Appx1815, Appx2230-33).

With regard to its meritless $200 million damages claim, netTalk continued to assert it notwithstanding the law on provisional rights and intervening rights, arguing without basis or explanation that the claims in the Reexamined Patent were not substantively changed from the original claims or from the provisional application. (Appx13-14, Appx77-78, Appx167-68, Appx2233-34). Significantly, despite the challenge issued in magicJack's Motion for Attorneys' Fees, netTalk did not even attempt to justify the merits of its baseless damages claim. (*See* Appx2233-34).

Finally, netTalk attempted to excuse its litigation misconduct on its failure to timely find new counsel after its previous counsel had withdrawn from the case. (Appx57, Appx2234). netTalk did not, however, dispute the $2,026,386 amount of fees sought by magicJack's motion. (Appx1735-40; *see generally* Appx2219-34).

In the Report, the Magistrate Judge stated that a "court will generally not find a party with a good-faith argument in favor of its position to have made 'exceptionally meritless' claims." (Appx15). However, even though netTalk failed to address the charge that it knew the limitation, "Internet connection provided by the ATA," was not infringed, (Appx12-13, Appx2230-33), the Magistrate Judge merely found that netTalk's infringement contention as to that limitation was "weak and, possibly, meritless," (Appx17). Further finding that netTalk's contention as to the limitation "multiple separate and independent [I]nternet access connections" was "unlikely to prevail," the Magistrate Judge nonetheless found that "[t]he infringement claims advanced by Plaintiff in this case were not so baseless as to support a fee award." (Appx15-16). In so finding, the Magistrate Judge relied on *Old Reliable Wholesale. Inc. v. Cornell Corp.*, 635 F.3d 539, 544 (Fed. Cir. 2011), a pre-*Octane Fitness* case that relied on a higher standard of proof for finding exceptionality.

Next, on the issue of netTalk's baseless damages claim, the Report merely found that netTalk had failed to "address[ ] the merits of the damages claim." (Appx14). The Report did not proceed, however, to address or analyze the consequences of that failure, or how that baseless assertion caused defendants to incur substantial fees. (*See generally* Appx14-19).

Finally, on the issue of litigation misconduct, the Report found that, "although the conduct of Plaintiff and Plaintiff's counsel in this litigation, at times, may have been less than desirable, it was not so unreasonable as to warrant a finding of exceptionality." (Appx18). In failing to assess any consequences for such conduct, the Magistrate Judge apparently found it necessary that defendants first had sought discovery, Rule 11 or other sanctions as a prerequisite to an exceptional case finding, stating, "the [District] Court notes that Defendants did not seek sanctions for the alleged discovery violations. Indeed, as Plaintiff argued, during the course of this entire litigation, no party was sanctioned for discovery abuses or otherwise." (Appx19).

Importantly, rather than weigh all of the issues together under the totality of the circumstances, the Report considered netTalk's baseless infringement allegations and litigation misconduct each in isolation, finding that neither, standing alone, warranted attorneys' fees, and then failed entirely to address netTalk's baseless damages claim. For example, in a separate section discussing netTalk's baseless infringement allegations, the Report found that netTalk's infringement claim as to the "Internet connection provided by the ATA" limitation "*[s]tanding alone* [was] insufficient to render this case extraordinary." (Appx17) (emphasis added). The Report then went on to recite the bare conclusion that it had considered the "totality of the circumstances," but this statement was made only in reference to netTalk's infringement claims. (Appx17). The "totality of the circumstances," as referenced in that paragraph, did not include consideration of netTalk's baseless damages claim or its litigation misconduct. *Id.*

Similarly, in a separate section discussing netTalk's litigation misconduct, the Report recited that it had considered the "totality of the circumstances" in considering netTalk's litigation misconduct, but this statement was made without reference to netTalk's infringement or damages claims as part of that misconduct. (Appx18-19).

Importantly, the Report failed entirely to address the lack of merit to netTalk's $200 million damages claim. (*See generally* Appx14-19).

In sum, despite articulating the need for evaluating the "totality of the circumstances," the Report did not do so. It failed to consider the issue of netTalk's baseless damages claim, failed to consider netTalk's assertion of a patent claim it knew from its testing was not infringed, and failed to consider all of that together with the unreasonable manner in which netTalk conducted the litigation.

magicJack filed its objections to the Report on December 4, 2015. (Appx2594-604). netTalk, however, did not file a response to magicJack's objections. (Appx28, Appx2607-08). On February 9, 2016, the District Court summarily affirmed and adopted the Report, denying magicJack's Motion for Attorneys' Fees in a three-page Order that is the subject of this appeal. (Appx1-3).

The District Court's Order dedicated but two paragraphs to the issues raised by magicJack's Motion for Attorneys' Fees. (Appx2). In the first paragraph, the Order merely recited the standard for exceptionality under *Octane Fitness*. In the second paragraph, the District Court, in conclusory fashion and without further analysis or explanation, held as follows:

> The [District] Court, in its discretion, does not find that this is an exceptional case. Plaintiff's claims were not frivolous or objectively unreasonable. *Id.* at 1756 n. 6 (listing nonexclusive list of factors that courts may consider in determining whether to award fees including "'frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.'") (citation omitted). In addition, Plaintiff's conduct during the litigation was not objectively unreasonable. As a result, Defendant is not entitled to fees under the Patent Act.

Id.

On March 1, 2016, the District Court entered a Final Judgment in which magicJack was awarded costs of $14,063.78, but not its fees. (Appx30). MagicJack filed a timely notice of appeal from the District Court's Order and Final Judgment on March 8, 2016. (Appx2611).

STANDARD OF REVIEW

All aspects of a district court's determination under 35 U.S.C. § 285 are reviewed for abuse of discretion. *Highmark Inc. v. Allcare Health Mgmt. Sys.*, 134 S. Ct. 1744, 1749 (2014).

SUMMARY OF THE ARGUMENT

This case stands out as exceptional. Courts in their discretion may consider many factors in weighing exceptionality, including "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *Octane Fitness*, at 1756 n. 6. (citation omitted). Here, the District Court abused its discretion by failing to find this case exceptional even though netTalk advanced frivolous infringement allegations; was motivated to inflict harm and impose costs on its chief competitor, its CEO, and his family; and advocated a damages claim that was both factually unsupported and legally frivolous. Under a proper consideration of the totality of the circumstances, magicJack should be compensated for the substantial legal expenses that netTalk's actions imposed.

netTalk maintained this lawsuit for a year even after it amended its lone asserted patent claim in a co-pending reexamination to add at least two limitations that precluded any possible finding of infringement. netTalk knew or should have known that it could not prevail after reexamination: netTalk's own CTO testified that in an effort to test whether the accused product infringed, he learned that it did not work in the manner required by those added claim limitations. netTalk cannot hide behind the need for claim construction, as it sought no construction for one of the two limitations—the "Internet connection provided by the ATA"—which it knew was not infringed based on the "sound card" testimony of Mr. Paxinos.

netTalk also made baseless damages claims from the outset and throughout the case. netTalk asserted in its original complaint that magicJack owed $200 million in damages dating back to the publication of the asserted patent's application, even though netTalk had substantially amended its patent claims after publication and then again during reexamination. And even as its case began to openly unravel in late 2014, netTalk filed a $200 million claim, based on this lawsuit, against the estate of Mr. Borislow, whom netTalk had also sued in this lawsuit in his individual capacity.[7] That move held up the distribution of the estate to Mr. Borislow's widow and children until netTalk scuttled its case months later.

netTalk's litigation conduct, meanwhile, belied the bravado of its claims. After reexamination, it repeatedly sought to delay trial and other deadlines, took virtually no discovery, and even failed to serve expert reports. Most tellingly, soon after netTalk replaced the lawyers who had filed the case and who had prosecuted the asserted patent through reexamination, netTalk abruptly dismissed its claims and completely walked away from its purported $200 million claim. But netTalk should have dismissed its claims a year earlier instead of forcing its competitor to

[7] netTalk's claim against Mr. Borislow's estate was filed on November 12, 2014, well after netTalk knew that magicJack did not infringe.

spend unnecessary millions on claim construction and attempts to obtain discovery in the defense of an infringement claim netTalk knew to be meritless, and an outsized damages claim that was equally meritless.

Considered altogether, netTalk's claims and conduct reveal that its motivation was not to pursue this case on its merits, but rather, to impose significant legal expense on its chief competitor or extract an unfair settlement. The District Court concluded that netTalk's claims were "weak and, possibly, meritless," and that netTalk was "unlikely to prevail," but the District Court did not go far enough, failing to consider all of the above facts under the totality of the circumstances. The District Court thus improperly denied magicJack's Motion for Attorneys' Fees under 35 U.S.C. § 285 in a half-page Order in which it summarily adopted the Magistrate Judge's earlier Report and Recommendation ("Report"). Although that Report, in turn, recited the bare conclusion that the District Court had considered the totality of circumstances, it assessed the merits of netTalk's infringement claim only based on a claim limitation that received construction, but virtually ignored the "Internet connection provided by the ATA" claim limitation as to which no construction was sought or needed, and which netTalk admitted could not be infringed by the accused magicJack "sound card." The District Court furthermore ignored the baselessness of netTalk's $200 million damages claim, as well as viewed netTalk's acts of litigation misconduct individually and in isolation, rather than as a whole or considered in the light of netTalk's knowing baselessness of its infringement and damages claims. The District Court in fact failed entirely to actually assess the merits of netTalk's baseless damages allegations, as there is no analysis of that anywhere in the Magistrate Judge's Report or the District Court Judge's order, other than the observation that rather than try to justify its damages claims in its opposition to magicJack's fee motion, netTalk instead pointed to its conduct following issuance of the District Court's claim construction order. Nowhere did the District Court, however, analyze netTalk's complete failure to offer any explanation or attempted justification whatsoever for its $200 million damages claim. In sum, there was no actual consideration by the District Court under the requisite totality of the circumstances analysis. Based on the totality of the facts and the law, the District Court's denial of magicJack's attorneys' fees was an abuse of discretion.

ARGUMENT

A. Applicable Legal Standards for Attorneys' Fees Under Section 285

The patent statute authorizes reasonable attorneys' fee awards to prevailing parties in "exceptional cases." 35 U.S.C. § 285; *Octane Fitness*, 134 S. Ct. at 1752-53. In *Octane Fitness*, the Supreme Court held that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigation position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case is litigated." *Id.* at 1756, 1758 (citation omitted). Exceptionality must be determined under the totality of the circumstances, including among other factors, "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." *Id.* at 1756. A prevailing party need only establish its entitlement to fees under Section 285 by a preponderance of the evidence—rather than by clear and convincing evidence. *Id*. at 1758.

The purpose of Section 285 is to compensate prevailing parties in exceptional cases for their expenses in the defense of a suit and to serve as a deterrent to "improper bringing of clearly unwarranted suits for patent infringement." *Automated Bus. Co., Inc. v. NEC Am., Inc.*, 202 F.3d 1353, 1355 (Fed. Cir. 2000); *see Octane Fitness*, 134 S. Ct. at 1756 n.6.

An exceptionally meritless claim alone can be sufficient to justify an award of attorneys' fees. *Octane Fitness*, 134 S. Ct. at 1757 ("But a case presenting either subjective bad faith or exceptionally meritless claims may sufficiently set itself apart from the mine-run cases to warrant a fee award."). Similarly, misconduct during the litigation can provide a separate basis for declaring an exceptional case. *See id.* at 1756; *Monolithic Power Sys., Inc. v. O2 Micro Int'l*

Ltd., 726 F.3d 1359, 1366 (Fed. Cir. 2013) ("Litigation misconduct alone may suffice to make a case exceptional.").

B. NetTalk's Continued Litigation After Reexamination Renders This Case Exceptional

Even before the *Octane Fitness* decision, litigants had a continuing duty to evaluate the soundness of their patent infringement claims as a case progresses. *See Taurus IP, LLC v. DaimlerChrysler Corp*., 726 F.3d 1306, 1326-30 (Fed. Cir. 2013) (upholding exceptional case and finding implicit subjective bad faith where patent owner prolonged litigation despite adverse claim construction); *Medtronic Navigation, Inc. v. BrainLAB Medizinische Computersysteme GmbH*, 603 F.3d 943, 954 (Fed. Cir. 2010) ("While an adverse claim construction generally cannot, alone, form the basis for an exceptional case finding, this court's decisions . . . do not undermine the rule that a party cannot assert baseless infringement claims and must continually assess the soundness of pending infringement claims, especially after an adverse claim construction."). Courts have thus awarded fees to prevailing defendants where plaintiffs have failed to drop their infringement claims after significant litigation milestones. *Taurus IP*, 726 F.3d at 1326-30.

And that is what should have happened here. netTalk should have dropped its infringement claim against magicJack after it amended the asserted patent claim in reexamination. As explained below, by not doing so, netTalk pursued a baseless infringement claim, backed only by an equally baseless, but outsized, damages claim, all the while conducting itself in a manner that exploited the inherent plaintiff/defendant asymmetry in litigation expenses.[8] As the Supreme Court recently noted, "[s]ome companies may use patents as a sword to go after defendants for money, even when their claims are frivolous," and, in those situations, "district courts have the authority and responsibility to ensure frivolous cases are dissuaded" through Section 285. *Commil USA, LLC v. Cisco Sys., Inc.*, 135 S. Ct. 1920, 1930-31 (2015).

C. The District Court Abused Its Discretion in Finding That netTalk's Infringement Contentions Were Not Objectively Unreasonable

netTalk had no reasonable basis for maintaining its infringement action against magicJack following the issuance of the Reexamined Patent when amendments to the patent and its own testing made clear that magicJack could not have infringed. During reexamination and in order to avoid a finding of invalidity, netTalk added over 126 words to asserted claim 3, including the following two limitations:

(1) "Internet connection provided by the ATA," and

(2) "multiple separate and independent [I]nternet access connections."

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[8] "[A] defendant will often have to spend more to defeat a claim than the plaintiff's cost of making it, for the defendant will have to gather and, at least, prepare to present evidence supporting his contention that he was not legally responsible for the harm done or that no harm was actually done." David Rosenberg & Steven Shavell, *A Solution to the Problem of Nuisance Suits: The Option to Have the Court Bar Settlement*, 26 Int'l Rev. L. & Econ. 42, 49 (2006).

(Appx1728-30). These amendments formed the basis for non-infringement by the accused devices as confirmed by the tests done by Mr. Paxinos. (Appx1832-33).

1. Even Without Claim Construction, netTalk Knew That magicJack Did Not Infringe the Limitation "Internet Connection Provided by the ATA"

With regard to the first limitation, "Internet connection provided by the ATA," no claim construction was necessary (and none was sought) for netTalk to know that magicJack did not infringe. (Appx6, Appx265-83, Appx319-44). By the time this limitation was added during reexamination, (Appx1750 at col.2:49), netTalk had already analyzed the accused products and knew or should have known—without having to wait for the District Court to issue its Claim Construction Order—that there could be no infringement.

Mr. Paxinos, netTalk's CTO and Rule 30(b)(6) witness, testified that netTalk tested the accused magicJack Plus devices in 2012 for the purpose of seeing whether they infringed, and learned that the accused devices did not operate as netTalk had expected. (Appx1829, Appx1832-33). Mr. Paxinos testified that he used a software protocol called "wire shark[ing]" to understand how the magicJack Plus device processed various signals. (Appx1830). As a result of these tests, netTalk learned that when the accused magicJack Plus devices were plugged into a computer, the devices "*leveraged the Internet's connection with the PC*, but the interface between the PC and the magicJack was different, used a different protocol set." (Appx1832). Mr. Paxinos elaborated that "[t]he way it presents itself to the PC, announces itself on the USB bus is that it provides audio services, audio in and audio out." (Appx1833). Mr. Paxinos went on to admit that when the magicJack Plus devices were connected to a personal computer, "there are no Internet format packets going back and forth between the accused magicJack Plus and the PC," and thus they do not provide any Internet connection but rather operate as "essentially . . . sound card[s]," passing only audio signals. (Appx1832-33). In other words, the accused magicJack devices did not have any "Internet connection provided by the ATA," but instead "leveraged the Internet's connection with the PC." (Appx1832). Thus, netTalk knew or should have known that its infringement contention with regard to the "Internet provided by the ATA" limitation was objectively baseless as of February 27, 2014, as soon as the claim emerged from re-examination.

Soon after the deposition of Mr. Paxinos, magicJack provided notice to netTalk of the baselessness of its claims, but netTalk refused to dismiss its infringement allegations. (Appx1837-39). In view of such notice, netTalk's refusal to drop its infringement allegations warrants a finding of objective baselessness. *See, e.g.*, *Lumen View Tech., LLC v. Findthebest.com, Inc.*, 24 F. Supp. 3d 329, 333, 336 (S.D.N.Y. 2014), *aff'd*, 811 F.3d 479 (Fed. Cir. 2016) (finding objective baselessness in part because defendant, via two phone calls and a letter at the outset of litigation, had put plaintiff on notice that there could be no infringement); *Classen Immunotherapies, Inc. v. Biogen Idec*, No. WDQ-04-2607, 2014 WL 2069653, at *4 (D. Md. May 14, 2014) (holding infringement claim was objectively baseless in part because defendant told plaintiff there was no possibility of infringement and offered to provide declaration to confirm it).

The Report indeed found that "Mr. Paxinos had tested the device in 2012 and confirmed that it was a sound card, which meant that it did not have an 'internet connection provided by the ATA.'" (Appx12). Although the Report went on to find that netTalk's infringement argument as to this first claim limitation was "weak and, possibly, meritless," it failed to find exceptionality because of the purported reasonableness of netTalk's infringement argument as to a second, different claim limitation. (Appx14-17). As shown below, however, the knowing absence of that single claim limitation was sufficient to warrant a finding of exceptionality irrespective of any good faith belief by netTalk as to the second claim limitation. *See, e.g.*, *TIP Sys.*, 529 F.3d at 1376-79.

2. Despite the Addition of an Adverse Claim Construction for "Multiple Separate and Independent Internet Access Connections," netTalk Still Maintained Suit

Only one claim limitation need be missing for there to be noninfringement, but there was at least another that was missing based on Mr. Paxinos's testing. With regard to the second claim limitation, the District Court construed the term "multiple separate and independent [I]nternet access connections" to mean "*multiple* separate and independent [I]nternet access points *in the housing of the ATA* used by the ATA to place and receive VoIP calls." (Appx1155-56) (emphasis added). In so holding, the District Court (as had the Patent Office) relied on a sworn affidavit submitted during reexamination by netTalk's expert, Dr. Costas Papadopoulos. *Id.* In this affidavit, Mr. Papadopoulos distinguished netTalk's patent claims from a prior-art reference on the basis that netTalk's claimed invention requires the multiple separate and independent Internet connections be in the housing of the ATA, while the prior art disclosed "only one [I]nternet access point in the housing." (Appx1815). Because Mr. Paxinos's "sound card" testimony showed that the magicJack Plus devices do not have multiple Internet access points "in the housing of the ATA," netTalk knew or should have known that this claim was objectively baseless on this additional ground at least as of December 1, 2014, after the District Court issued its Claim Construction Order. (Appx11-12, Appx1160).

The Report found, as to this second limitation ("multiple separate and independent [I]nternet access connections"), that netTalk was "unlikely to prevail," but that netTalk had "set forth a good faith argument" and that netTalk's infringement contentions "were not so baseless as to support a fee award." (Appx15-16).

Given the admission of netTalk's expert, Mr. Papadopoulos, during reexamination, netTalk's assertion of the second limitation could not have been made in good faith. (Appx10, Appx1723, Appx1728). Regardless, that the Report used its finding of good faith as to the second claim limitation as a basis for finding no exceptionality was an abuse of discretion because it completely ignored the "Internet connection provided by the ATA" limitation, which was not dependent on claim construction or any of netTalk's "good faith" arguments made as to the second claim limitation. (Appx15-17).

3. The District Court Erred in Relying on a Pre-*Octane Fitness* Case to Require that magicJack Prove Exceptionality by Clear and Convincing Evidence

The Report relied on a strict standard for proving objective baselessness that may no longer be good law after the Supreme Court's decision in *Octane Fitness.* The Report explicitly quotes a pre-*Octane Fitness* decision to find that "[u]nless an argument or claim asserted in the course of litigation is *so unreasonable that no reasonable litigant could believe it would succeed*, it cannot be deemed objectively baseless for purposes of awarding attorney fees." (Appx15-16) (citing *Old Reliable*, 635 F.3d at 544) (quoting *iLOR, LLC v. Google, Inc.*, 631 F.3d 1372, 1378 (2011)).

In *Octane Fitness*, however, the Supreme Court rejected the rigidity of the Federal Circuit's former test for attorneys' fees as articulated in *Brooks Furniture*

Mfg., Inc. v. Dutailier Int'l, Inc., 393 F.3d 1378 (2005). *See* 134 S. Ct. at 1752-54. *Brooks Furniture* held that a case is exceptional under Section 285 only when there is litigation misconduct or when the litigation is objectively baseless and brought in subjective bad faith. *Brooks Furniture*, 393 F.3d at 1381-82. The Federal Circuit had previously elaborated that litigation under this framework is objectively baseless only if it is "so unreasonable that no reasonable litigant could believe it would succeed." *iLOR*, 631 F.3d at 1378.

To the extent that *iLOR* and *Old Reliable* require that a patent challenger prove exceptionality by clear and convincing evidence, these cases have been abrogated by *Octane Fitness*, which requires only a finding under the preponderance of the evidence. *See Octane Fitness*, 134 S. Ct. at 1758 ("We have not interpreted comparable fee-shifting statutes to require proof of entitlement to fees by clear and convincing evidence. And nothing in § 285 justifies such a high standard of proof. . . . Indeed, patent-infringement litigation has always been governed by a preponderance of the evidence standard.").

Furthermore, to the extent that *iLOR* and *Old Reliable* restrict the standard for finding a case exceptional to only the two circumstances outlined in *Brooks Furniture*, 393 F.3d at 1381-82, these cases were abrogated by *Octane Fitness*, 134 S. Ct. at 1752-55, which made clear that an exceptional case is simply one that stands out from others with respect to the substantive strength of a party's litigation position. The District Court's requirement that magicJack prove objective baselessness under a standard stricter than under *Octane Fitness*, was an abuse of discretion. (Appx15-16).

4. The District Court Abused Its Discretion in Allowing the Purported Reasonableness of One Infringement Argument to Undercut the Lack of Merit of the Other

The Report, adopted by the District Court, further erred by considering the two flaws in netTalk's infringement claims independently and allowing the purported reasonableness as to one claim limitation to undercut the lack of merit regarding the other. (Appx15-17). This is so because if a patentee fails to show the presence of even a single claim limitation in the accused product, that is enough to negate an allegation of infringement of the claim. *See, e.g.*, *TIP Sys.*, 529 F.3d at 1376-79.

Here, netTalk had no good faith basis to maintain its claim of infringement of the limitation, "Internet connection provided by the ATA," after the patent claims emerged from reexamination. The purported reasonableness of netTalk's other infringement positions is irrelevant and cannot remedy the baselessness of this "weak and, possibly, meritless" argument. *See, e.g.*, *Home Gambling Network Inc., v. Piche*, No. 2:05-CV-610-DAE, 2014 WL 2170600, at *5-*6 (D. Nev. May 22, 2014) (awarding attorneys' fees where patentee never contested that accused product did not perform all steps of claimed method in U.S.); *TechSearch, L.L.C. v. Intel Corp.*, 286 F.3d at 1369.

This case stands in contrast to *Old Reliable*, 635 F.3d at 544, in which this Court found a lack of exceptionality partly because the patentee was able to raise several reasonable defenses to patent *invalidity*. The proof required to show lack of invalidity, however is different from that required to prove infringement; with invalidity, a patentee might reasonably raise several claim limitations that are not met by a prior art reference, any one of which is sufficient to show that a patent is not invalid. *See, e.g.*, *id.* (reversing and remanding an attorneys' fee award because patentee presented several grounds for the argument that the patent was valid over the prior art). With infringement, however, netTalk bore the burden to show that every element of claim 3 was met, such that the knowing lack of a reasonable basis for any single element is sufficient to make this an exceptional case. *See, e.g.*, *TIP Sys.*, 529 F.3d at 1376-79.

5. The District Court Failed to Consider the Totality of netTalk's Baseless Infringement Allegations on the Overall Propriety of Its Claims

Finally, the Report failed to consider the combined consequence of these flaws on the overall propriety of netTalk's pursuit of its infringement claims. Instead, the Report stated that "standing alone," the "weak and, possibly, meritless" nature of netTalk's argument relating to the "Internet connection provided by the ATA" was "insufficient to render the case extraordinary." (Appx17). And similarly, with respect to the other claim limitation, which relied on claim construction, the Report stated that "los[ing] on its claim construction position, standing alone, is insufficient to support a finding of exceptionality within the context of § 285." (Appx16). Of course, both of these flaws did not "stand alone," but instead, compounded the meritless nature of netTalk's pursuit of its infringement claims.

The District Court's error here actually betrays a larger problem insofar as it allowed the apparent reasonableness of one infringement position to raise a presumption against granting attorneys' fees. In *Kirtsaeng v. John Wiley & Sons, Inc.*, 136 S. Ct. 1979 (2016), the Supreme Court recently clarified the standard for awarding attorneys' fees under 17 U.S.C. § 505, the parallel attorneys' fees statute in the copyright context. The Supreme Court held that "objective reasonableness can be only an important factor in assessing fee applications—not the controlling one." *Id.* at 1988. The Supreme Court thus vacated a Second Circuit decision denying attorneys' fees, finding that, while the Second Circuit "properly calls for district courts to give 'substantial weight' to the reasonableness of a losing party's litigating positions, its language at times suggests that a finding of reasonableness raises a presumption against granting fees, and that goes too far in cabining the district court's analysis." *Id.* at 1983, 1989. Similarly, the District Court here appeared to have found that the purported reasonableness of netTalk's position with regard to the limitation "multiple separate and independent [I]nternet access connections" raised a presumption against finding exceptionality and against granting attorneys' fees, no matter the lack of merit of netTalk's other infringement claim, the baselessness of its $200 million damages claim, or the gravity of its litigation misconduct. (Appx14-17).

This case stands out under the totality of the circumstances because netTalk continued to press its meritless arguments despite record evidence from its own witnesses that contradicted its infringement contentions. *See, e.g.*, *Bayer Cropscience AG v. Dow Agrosciences LLC*, No. CV 12-256, 2015 WL 1197436, at *4, *8, *9 (D. Del. Mar. 13, 2015) ("Bayer's case, however, became more anemic upon review of each piece of evidence . . . Throughout this litigation, Bayer marched onward with a view of its case that was not supported by its own witnesses . . . The positions Bayer took . . . were directly contradicted by the record evidence Bayer had obtained through early discovery and Bayer should have made every effort to discover before filing suit. The Court is troubled by the fact that, even in the face of contrary evidence from its own witnesses . . . Bayer opposed summary judgment."). Here, the District Court abused its discretion in adopting the Report without any analysis of the baselessness of the underlying claims. (*See generally* Appx14-19, Appx2). With application of the correct legal standards and a non-erroneous assessment of the evidence, attorneys' fees are necessary so that parties like netTalk would be deterred from making arguments in disregard of established facts and law and imposing needless costs on other parties. *See Bayer*, 2015 WL 1197436, at *10 ("Faced with no evidence…Bayer has engaged in acrimonious fallacy and obfuscation, which resulted in unnecessary expenditure of legal fees by Dow. Bayer will now have to pay the price.").

D. The District Court Abused Its Discretion in Failing to Address netTalk's Baseless $200 Million Claim

Separate and apart from netTalk's baseless claim of infringement, netTalk also made an outrageous, unsupported, and legally erroneous claim of more than $200 million in damages—an amount so large that magicJack was forced to pursue a commensurately robust defense. (Appx1730-32).

netTalk's damages claim was based on the allegation that magicJack violated its "provisional rights" in the B2 Patent, meaning that netTalk sought damages not from the date the patent issued in 2012, but from the much earlier date of June 4, 2009, when the *application* leading to the B2 Patent was published. (Appx13, Appx77-78, Appx167-68). However, a patentee is only entitled to provisional rights if the claims of the issued patent are "substantially identical" to those in the published patent application, and the accused infringer had actual notice of the published patent application. *See* 35 U.S.C. § 154(d). Here, a brief comparison shows there is simply no good-faith argument that the claims in the published application and the claims in the originally issued B2 Patent are substantially identical. *Compare* (Appx1770-71) (published application claims) *with* (Appx1760-61) (issued B2 Patent claims); *see also* (Appx1773-76) (side-by-side comparison of same).

The differences are even more apparent when the claims of the Reexamined Patent are compared with the claims after reexamination; the difference is dramatic. For example, the longest patent claim in the published application, claim 10, contains only 79 words, while claim 3 of the Reexamined Patent contains 451 words—almost six times as many words. *Compare* (Appx1770-71) (published application claims) *with* (Appx1750-51) (Reexamined Patent claims); *see also* (Appx1778-79) (side-by-side comparison of same). No plausible argument can be made that a claim containing 372 more words and several additional limitations is substantially identical to the claims in the original published application. *See* 35 U.S.C. § 154(d).

Equally egregious was netTalk's claim for the same $200 million in damages after the original patent was revoked and replaced with the Reexamined Patent. Rather than seeking damages forward from the February 2014 date of the Reexamined Patent issuance, netTalk continued to seek damages from the earlier publication date in 2009, despite the massive differences between the patent claims. (Appx167-68, Appx1778-79). The law is clear that such earlier claimed damages under the doctrine of "intervening rights" are only permissible where the claims of the Reexamined Patent are "substantially identical" to the original patent. 35 U.S.C. §§ 252, 307(b). This Court has held that claims are not "identical" unless they are "without substantive change." *See* 35 U.S.C. § 252; *Laitram Corp. v. NEC Corp.*, 163 F.3d 1342, 1346 (Fed. Cir. 1998); *Bloom Eng'g v. N. Am. Mfg.*, 129 F.3d 1247, 1249 (Fed. Cir. 1997) (stating that both reissue and re-examination statutes "shield those who deem an adversely held patent to be invalid; if the patentee later cures the infirmity by reissue or re-examination, the making of substantive changes in the claims is treated as an irrebuttable presumption that the original claims were materially flawed."). There can be no good faith argument that the reexamined claim 3—to which at least four substantive limitations and 126 additional words were added—is "identical" to the original patent claim. netTalk's contrary claim was, and is, baseless. *See, e.g., Laitram*, 163 F.3d at 1348 ("[I]t is difficult to conceive of many situations in which the scope of a rejected claim that became allowable when amended is not substantively changed by the amendment.").

Finally, netTalk's conduct was particularly egregious with regard to its effect on Mr. Borislow's estate and family. Despite knowledge that its underlying direct infringement claim lacked merit, and moreover as to its inducement claim, that Mr. Borislow had ceased to be an officer of the company and had ended his involvement in its operation long before the reexamination certificate issued, netTalk pressed on with its $200 million claim against his estate. (Appx1163, Appx1343, Appx1453-54). netTalk's unsupportable damages claim would have rendered the estate insolvent by a large margin. (Appx1849-50). As a result, Ms. Borislow was unable to make distributions of the estate to her family or legitimate creditors without risking personal liability, or otherwise "move on with life." *Id.* netTalk plainly maintained its baseless claim against Mr. Borislow's estate in an attempt to gain leverage against magicJack, and that, too, supports an exceptional case finding. As the Federal Circuit has said in a somewhat analogous context, "the appetite for licensing revenue cannot overpower a litigant's and its counsel's obligation to file cases reasonably based in law and fact and to litigate those cases in good faith." *Eon-Net LP v. Flagstar Bancorp*, 653 F.3d 1314, 1328 (Fed. Cir. 2011).

magicJack challenged netTalk's damages allegations, and even filed a motion to dismiss on the issue, (App114-17), but netTalk never once justified its allegations or reduced that damages number, even when faced with the Motion for Attorneys' Fees. (*See* Appx2233-34). netTalk's ultimate intent was to inflate the damages case, to either extract a settlement of its meritless case and/or to force excessive fees and costs on magicJack to defend the magnitude of its claims, no matter how baseless.

Tellingly, netTalk's opposition to magicJack's motion for fees was conspicuously silent as to any justification for its outlandish $200 million claim for damages, or any explanation for how its claim could possibly have been made in good faith given the controlling statutes and case law. (*See* Appx2233-34). netTalk, similarly failed to oppose the damages issues raised in magicJack's Objections to the Report. (Appx2596-600, Appx2608). netTalk's silence speaks volumes and is a concession that it had no viable damages theory. Indeed, as the Report acknowledged, "[r]ather than addressing the merits of the damages claim, Plaintiff's argument focused on its conduct in attempting to resolve this case following the issuance of the claim construction order." (Appx14; *see also* Appx2233-34). netTalk's argument is at best a nonsequitur, and irrelevant to the merits of its baseless $200 million damages claim. (Appx2233-34).

As netTalk could not have shown that its damages claims were reasonable, and did not even try to do so when challenged to justify the magnitude of its claim, the District Court abused its discretion in adopting a Report that failed to address this argument at all, let alone impose any consequences. (Appx1-3; *see also* Appx13-14 (merely reciting the parties arguments regarding damages in Report); *see generally* Appx14-19 (failing to address the baselessness of netTalk's damages arguments in the Report's "Analysis" section). This failure is more than a mere technicality—the baseless $200 million damages claim alone is fully sufficient under Federal Circuit and Supreme Court law to justify a declaration that the case is exceptional and award fees. *See Octane Fitness*, 134 S. Ct. at 1756 (noting that "an 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position" and that a case presenting "exceptionally meritless claims may sufficiently set itself apart from mine-run cases to warrant a fee award.").

netTalk's outsized damages claim infected every aspect of this case, prolonged the litigation, and forced magicJack to incur significant costs of defense. (Appx1721-22; Appx1732-35; *see also* Appx18-19). As explained in magicJack's Motion for Attorneys' Fees and further below, netTalk thwarted magicJack's efforts to take discovery commensurate with its potential exposure by routinely ignoring court-imposed deadlines, failing to provide discovery, and cancelling scheduled depositions at the last minute after defendants had already invested time in preparation. (Appx1732-35). While netTalk as the plaintiff could know whether it wanted to choose not to prosecute its case with any diligence, magicJack could not take an equally cavalier approach to its defense when facing such a gargantuan damages claim. magicJack was thus forced to prepare for depositions, work with experts to prepare costly and time-consuming expert reports, and otherwise prepare the case for trial on the schedule ordered by the District Court. Because netTalk relentlessly claimed $200 million in damages, magicJack was forced to litigate the case proportionally, rather than as the baseless case at hand.

Yet, the Report failed entirely to address the merits of netTalk's damages claim. (Appx13-14 (merely reciting the parties arguments regarding damages); *see generally* Appx14-19 (failing to address the baselessness of netTalk's damages arguments in "Analysis" section). The Report found that netTalk "sought $200 million in damages from June 4, 2009, the date on which Plaintiff filed the provisional patent application," and even acknowledged that "[i]f there were any changes to the [patent] claims, then Plaintiff could only seek damages from re-examination onward." (Appx13). But the Report, just like netTalk, never addressed the merits of netTalk's baseless $200 million damages claim. This omission in the Report shows on its face that the District Court did not consider exceptionality under the totality of the circumstances, which was an abuse of discretion.

E. netTalk's Pervasive Litigation Misconduct Showed That It Had No Intention of Testing the Merits of Its Claims

Finally, when viewed as a totality, netTalk's misconduct throughout this litigation evidences that it never intended to prosecute this case in good faith, but intended instead to impose high litigation costs on its chief competitor or extract an unfair settlement. *See MarcTec, LLC v. Johnson & Johnson,* 664 F.3d 907, 920-21 (Fed. Cir. 2012) (affirming a district court's finding of litigation misconduct where the plaintiff "not only initiated a frivolous lawsuit" with regard to infringement allegations but also "persisted in advancing unfounded arguments that unnecessarily extended [the] litigation and caused . . . needless litigation expenses"). While magicJack had to vigorously defend against netTalk's baseless infringement contentions and its $200 million damages claim, netTalk did the minimum it could to avoid incurring expenses, flouted court-imposed deadlines, and refused to produce discovery, while magnifying defendants' expenses.

First, netTalk forced magicJack to incur needless deposition preparation expenses. For example, magicJack noticed, and netTalk agreed to, the depositions of Mr. Takis Kyriakides, netTalk's CEO, and Mr. Kenneth Hosfeld, netTalk's Vice President, to take place in mid-November. (Appx1175, Appx1179). Days before those depositions were to be taken, netTalk postponed both depositions after magicJack had already made travel and lodging preparations. (Appx1370). On November 17, 2014, magicJack immediately followed up with amended notices for both of those witnesses, and netTalk again agreed to the depositions in early December. (Appx1375, Appx1378, Appx1342). On November 26, 2014, however, netTalk unilaterally and without reason withdrew the depositions of both of these witnesses and cancelled all remaining depositions. (Appx1733, Appx1439). With the close of fact discovery slated for December 10, 2014, netTalk's failure to produce these witnesses meant magicJack could not complete development of its own case. (Appx50, Appx1102, Appx1199, Appx1347, Appx1359, Appx1733).

netTalk, moreover, took no fact depositions of its own, even withdrawing depositions of the only two magicJack witnesses it had noticed, Mr. Gerald Vento and Mr. Jose Gordo, magicJack's CEO and CFO, respectively. (Appx1120-21, Appx1206). Both of these withdrawals were made unilaterally by netTalk, only one day before those depositions were to begin and well after magicJack had already invested significant attorney preparation time and paid for travel arrangements. (Appx1841).

Second, netTalk entirely failed to respond to written discovery requests, and refused to respond to several other ongoing discovery issues. (Appx1474-75, Appx1855, Appx1924, Appx1952).

Third, netTalk announced only three days before expert reports were to be served that it would not be serving expert reports of its own, in defiance of the District Court's scheduling order. (Appx1163, Appx1201, App1348, Appx1357, Appx1370-71, Appx1725-26, Appx1733-34, Appx1852). netTalk, of course, did not have to wait until the last minute to tell magicJack that it would not serve expert reports. Indeed, on November 26, 2014, magicJack had reached out to netTalk to confirm whether it intended to serve expert reports, but netTalk did not respond until three days before the expert reports were due (Appx1201). Not only was it too late by then for magicJack to avoid the expense of preparing reports to address netTalk's $200 million claim of infringement, but magicJack was forced to move for an extension of time to serve its own expert reports so as not to be at a strategic disadvantage. (Appx1725, Appx1733-34).

Fourth, within five days after Mr. Paxinos' deposition, netTalk's former counsel moved to withdraw from the case. (Appx1137-38). In connection with that motion, netTalk sought a 90-day stay to obtain new counsel. *Id.* This request came on the heels of two other motions by netTalk to continue the trial date, which as of then was scheduled for late February 2015. (Appx981-87; Appx1101-06). Even after netTalk found new counsel, it only *agreed to provide* outstanding discovery as the deadline was approaching to dismiss the case, but never actually provided it. (Appx1469-1475; Appx1606; Appx1725-26).

After the District Court granted the motion to withdraw, but denied netTalk's motion for a continuance, and even before new counsel for netTalk announced his intent to appear, netTalk began discussing the possibility of stipulating to non-infringement. (Appx1846, Appx1952, Appx1954, Appx2223). Indeed, counsel for netTalk represented that it could not prove infringement under the District Court's constructions. (Appx1846) ("[I]n light of the [District] Court's claim construction, as plaintiff's counsel, I told Mr. Woo that I don't see, under the current construction, any way for there to be infringement, which is a casedispositive issue, at least as to the infringement claims."). However, netTalk never mentioned that Mr. Paxinos' testimony also made it impossible to meet the "Internet connection provided by the ATA" limitation—which was not dependent on the claim construction order. *Id.*

Fifth, netTalk continued to delay stipulating to non-infringement or dismissal until it forced additional expense upon magicJack. Knowing that Defendants had to prepare to meet a $200 million claim, netTalk continued to erect roadblocks to magicJack's discovery, which by then had been ordered by the District Court. On January 21, 2015, the same day that netTalk admitted that it could not prove infringement, the District Court ordered netTalk to provide all outstanding discovery by March 2, 2015. (Appx1456). The District Court also set a new trial date of June 1, 2015. (Appx1456). Defendants accordingly continued to pursue discovery and work on expert reports in order to meet all deadlines and prepare the case for trial, but netTalk never provided the discovery it was ordered to. (Appx1469-76).

Sixth, netTalk's failure to cooperate during discovery forced magicJack to spend resources and time to file a motion to compel. (Appx1469-76).

Seventh, and perhaps most egregiously, netTalk filed a $200 million claim, based on this lawsuit, against the estate of Mr. Borislow, whom netTalk had also sued in this lawsuit in his individual capacity. (Appx14, Appx1162, Appx1164-65, Appx1849-50). That move was apparently made to hold up the distribution of the estate to Mr. Borislow's widow and children in the hopes of forcing a settlement. (Appx14, Appx1162, Appx1164-65, Appx1849-50). The claim was not removed until netTalk scuttled its case months later. Although Mr. Borislow had ended all affiliations with the magicJack defendants by November 2013—well before the Reexamined Patent issued—and Mr. Borislow certainly did not infringe or induce infringement of the Reexamined Patent, netTalk continued to maintain this action against his widow, family and estate, purely as settlement leverage. (Apx163, Appx14, Appx1162, Appx1164-65, Appx1849-50, Appx1732).

Finally, in the face of Defendants' motion to compel and the March 2, 2015 deadline to provide all remaining outstanding discovery and serve expert reports, and having caused Defendants to incur as much expense as it could before having to make expenditures of its own to comply with the discovery order and expert report deadline, netTalk finally abandoned its case by unilaterally issuing a covenant not to sue and moving to dismiss its own claims, but not before magicJack had incurred additional significant expense in trying and failing to obtain discovery from netTalk. (Appx1618-25).

The District Court accordingly dismissed netTalk's claims with prejudice, (Appx1710), almost three months after the claim construction order issued, (Appx1148, Appx1160), and more than a year after netTalk's claims were amended in reexamination to add the "multiple separate and independent [I]nternet access connections" and the "Internet connection provided by the ATA" limitations, which netTalk long ago knew from Mr. Paxinos' testing in 2012 were not practiced by the accused magicJack devices. (Appx1749-50).

While the Report found that netTalk's conduct throughout the litigation was "less than desirable," it incorrectly concluded, based on outdated law and a failure to consider the totality of the circumstances, that netTalk's conduct did not render this case exceptional. (Appx18). In particular, as reflected in the Report, which the District Judge accepted uncritically, the District Court failed to consider the effect of netTalk's litigation misconduct in combination with netTalk's baseless infringement and damages claims. (*See generally* Appx4–28); *see Octane Fitness*, 134 S. Ct. at 1756 ("District courts may determine whether a case is 'exceptional' in the case-by-case exercise of their discretion, considering the totality of the circumstances.").

As one netTalk witness confirmed in deposition, netTalk's motivation to delay the case was because the longer the litigation dragged on, the more damages netTalk could recoup. (Appx1113-14). While time was viewed as an asset for netTalk, for the magicJack Defendants, each additional day until trial was simply an expensive, ongoing distraction from the task of running their business, and each day the case pended was one more day that Ms. Borislow and her children could not access any of the assets of Mr. Borislow's estate. (Appx1068-69, Appx1849-50). The overall effect here is that as the plaintiff, netTalk had the advantage of knowing it would never seriously prosecute this case due to Mr. Paxinos's testing, while magicJack was forced to prepare and incur significant expense defending netTalk's baseless $200 million infringement claim. netTalk exploited this asymmetry, imposing millions of dollars of expenses on its chief competitor. (Appx1735).

In *Oplus Technologies, Ltd. v. Vizio, Inc.*, 782 F.3d 1371, 1372-75 (Fed. Cir. 2015), this Court vacated a district court's denial of attorneys' fees in view of *Octane Fitness*, finding the case exceptional based on Oplus's litigation misconduct, including its delaying the litigation, "misus[ing] the discovery process to harass Vizio by ignoring necessary discovery;" "flouting its own obligations;" and "us[ing] improper litigation tactics including . . . misrepresenting legal and factual support." This Court also found that while there was no unusual delay on defendant Vizio's part, Oplus' conduct "caused additional process and wasted party and judicial resources." *Id.* at 1374-75. This Court thus concluded that—despite the lack of objective baselessness in Oplus's allegations—in the face of such misconduct, Vizio had incurred additional litigation expenses and Oplus's misconduct should weigh in favor of awarding attorneys' fees. *Id.*

The District Court also erred as a matter of law in validating netTalk's tactics on the basis that magicJack did not seek sanctions. (Appx19). The Supreme Court in *Octane Fitness* explicitly held that "sanctionable conduct is not the appropriate benchmark" for awarding fees in an exceptional case. 134 S. Ct. at 1756 (emphasis added). Instead, a district court may award fees when "a party's unreasonable conduct—while not necessarily independently sanctionable—is nonetheless so 'exceptional' as to justify an award of fees." *Id.* at 1757 (emphasis added). Thus, denying fees because magicJack did not seek discovery sanctions, Rule 11 sanctions, or otherwise, was clear error amounting to an abuse of discretion. *See Lumen View Tech. LLC v. Findthebest.com, Inc.*, 811 F.3d 479, 483 (2016) (finding that parties can be entitled to fees even if litigation conduct is "not quite sanctionable"); *see also MarcTec, LLC v. Johnson & Johnson*, 664 F.3d 907, 919 (Fed. Cir. 2012) ("[I]t is well-established that litigation misconduct and unprofessional behavior may suffice, by themselves, to make a case exceptional under § 285.") (internal quotation and citation omitted). The fact that magicJack did not burden the District Court with sanctions motions for netTalk's litigation misconduct does not negate that both individually and cumulatively, netTalk's actions needlessly increased the costs of this litigation.

In sum, "the aim of § 285 is to compensate a defendant for attorneys' fees it should not have been forced to incur." *Kilopass Tech., Inc. v. Sidense Corp.*, 738

F.3d 1302, 1313 (Fed. Cir. 2013). Here, attorneys' fees are necessary to compensate magicJack for the needless costs incurred in dealing with netTalk's obstructive and cost-multiplying discovery tactics.

F. The District Court Erred in Considering Each of netTalk's Offenses Only in Isolation, Failing to Account for the Totality of the Circumstances

Octane Fitness requires that a district court consider exceptionality under the totality of the circumstances. 134 S.Ct. at 1756. To be sure, netTalk's baseless infringement claims, baseless $200 million damages claim, and inexcusable litigation misconduct each alone stand out from ordinary litigation. Taken as a whole, netTalk's conduct most certainly constitutes an exceptional case.

Here, the Report states in two places that the Magistrate Judge had considered the "totality of the circumstances," but the Magistrate Judge appeared to believe that the "totality of the circumstances" analysis was meant to be applied on an issue-by-issue basis, i.e. separately as to each issue raised by magicJack. The Report failed to consider the sum of all of netTalk's infractions as a whole. For example, at the end of the section addressing the merits of netTalk's infringement contentions, the Report states that it had considered the "totality of the circumstances," but this statement was made only in reference to netTalk's infringement claims. (Appx17). The "totality of the circumstances," as referenced in that paragraph, did not include consideration of netTalk's baseless damages claim or its litigation misconduct. *Id*. Most tellingly, the Report stated that, "[w]ith respect to the claim element not requiring claim construction, the [District] Court agrees that Plaintiff[']s argument in this regard was weak and, possibly, meritless. *Standing alone*, however, it is insufficient to render this case extraordinary." *Id.* (emphasis added).

Similarly, in a separate section addressing netTalk's litigation misconduct, the Report recited that it had considered the "totality of the circumstances," but this statement was made without reference to netTalk's infringement or damages claims as part of that misconduct. (Appx19).

Finally, and most importantly, the Report failed entirely to address the lack of merit to netTalk's $200 million damages claim. (*See generally* Appx14-19). By not even analyzing netTalk's baseless claim for $200 million, and ignoring the fact that netTalk never even attempted to justify that damages number in its opposition papers, the Report—on its face—could not have taken into actual consideration the totality of the circumstances.

While Defendants appreciate that fee awards should be the exception, rather than the rule, it is hard to imagine any case where fees might be awarded if not in this one. Here, netTalk's actions meet nearly all of the factors outlined in *Octane Fitness* that the Supreme Court said would warrant attorneys' fees: "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." 134 S. Ct. at 1756, n. 6 (*citing Fogerty v. Fantasy, Inc.*, 510 U.S. 517, 535 n.19 (1994)). As shown above, the patentee asserted a patent claim knowing it was not infringed; steadfastly asserted an entitlement to $200 million in damages without any legal or factual justification (and never articulated any); asserted the same bogus claims against the estate of an individual defendant as to whom no basis existed for naming him in the first place; and engaged in numerous and systematic litigation tactics designed to force defendants to incur the maximum amount of legal expense, while not intending to actually proceed to consideration on the merits but instead extract an unfair settlement or at the very least, cause its competitor to incur needless legal expense. The District Court abused its discretion in failing to consider the whole of netTalk's conduct under the totality of circumstances test, viewing them instead in isolation and ignoring netTalk's failures 1) to even attempt justification of its outsized $200 million damages claim; 2) to even articulate any justification for continuing to assert infringement of the "Internet connection provided by the ATA" limitation in the face of the results of Mr. Paxinos' 2012 testing of the accused product; and 3) to even attempt justification for making the same assertions against the estate of Mr. Borislow, against whom it furthermore lacked any basis for inducement given that all of his alleged conduct took place prior to the issuance of the Reexamination Patent.

CONCLUSION

For the foregoing reasons, the Court should find that this is an exceptional case under 35 U.S.C. § 285, reverse the District Court's denial of attorneys' fees, and award magicJack $2,026,386 in fees, an amount that is not disputed by netTalk. (Appx1735-40; *see generally* Appx2219-34). In the alternative, the Court should vacate the District Court's Order denying magicJack's fee motion and remand this matter to the District Court with appropriate instructions.

Dated: July 8, 2016

Respectfully submitted,

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ADDENDUM

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UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO: 12-81022-CIV-GAYLES/TURNOFF

NET TALK.COM, INC.,

Plaintiff,

vs.

MAGICJACK VOCALTEC LTD.,
MAGICJACK LP, MAGICJACK
HOLDINGS CORPORATION, and
MICHELLE BORISLOW, personal
Representative of the Estate of Daniel
Borislow,

Defendants.
_______________________________/

ORDER

THIS CAUSE came before the Court upon Defendants' Motion for Attorney's Fees pursuant to 35 U.S.C. § 285 [ECF No. 166] and Defendants' Bill of Costs [ECF No. 160]. Both matters were referred to Magistrate William J. Turnoff for a report and recommendation. Following a hearing on August 18, 2015, Judge Turnoff issued a Report and Recommendation ("Report") [ECF No. 183], recommending that the Court deny Defendants' Motion for Attorney's Fees and grant in part and deny in part Defendants' Bill of Costs. On December 4, 2015, Defendants filed their Objections to the Report and Recommendation ("Objections) [ECF No. 184], objecting only to Judge Turnoff's recommendation on the Motion for Attorney's Fees.

When a magistrate judge's "disposition" has been properly objected to, district courts must review the disposition *de novo*. Fed R. Civ. P. 72(b)(3). If no party timely objects, however, "the court need only satisfy itself that there is no clear error on the face of the record in order to accept the recommendation." Fed. R. Civ. P. 72 advisory committee's notes (citation omitted). The Court has carefully reviewed the written submissions, the record, and the applicable law and, for the following reasons, the Objections are overruled.

Attorney's Fees

The Patent Act permits courts to award reasonable attorney's fees in "exceptional cases." 35 U.S.C. § 285. In *Octane Fitness, LLC v. ICON Health & Fitness, Inc.*, 134 S.Ct. 1749 (2014), the Supreme Court announced a new and more lenient standard for determining when a patent case is considered exceptional. "[A]n 'exceptional' case is simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." *Id.* at 1756. Courts determine whether a case is exceptional "in the case-by-case exercise of their discretion, considering the totality of the circumstances." *Id.*

The Court, in its discretion, does not find that this is an exceptional case. Plaintiff's claims were not frivolous or objectively unreasonable. *Id.* at 1756 n. 6 (listing nonexclusive list of factors that courts may consider in determining whether to award fees including "'frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence.'") (citation omitted). In addition, Plaintiff's conduct during the litigation was not objectively unreasonable. As a result, Defendant is not entitled to fees under the Patent Act.

Costs

Judge Turnoff recommended an award of $14,063.78 in costs. Defendant does not object to the recommended award. *See* [ECF No. 184 at n.1]. Upon a review of the record, the Court finds no clear error in Judge Turnoff's recommendation regarding costs.

CONCLUSION

The Court has reviewed the Report, the record, and the applicable law. In light of that review, the Court agrees with the analysis, recommendations, and conclusions stated in the Report. Accordingly, it is

ORDERED AND ADJUDGED that the Report **[ECF No. 183]** is **AFFIRMED AND ADOPTED**. Defendants' Motion for Attorney's Fees pursuant to 35 U.S.C. § 285 [ECF No. 166] is **DENIED.** Defendants' Bill of Costs [ECF No. 160] is **GRANTED IN PART AND DENIED IN PART**. Defendants shall recover $14,063.78 in costs.

DONE AND ORDERED in Chambers at Miami, Florida, this 9th day of February, 2016.

DARRIN P. GAYLES
UNITED STATES DISTRICT JUDGE

cc: Magistrate Judge Turnoff
All Counsel of Record

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 12-CV-81022-GAYLES/Turnoff

NET TALK.COM, INC.,

Plaintiff,

vs.

MAGICJACK VOCALTEC LTD.,
MAGICJACK LP, MAGICJACK HOLDINGS
CORPORATION, and MICHELE BORISLOW,
personal representative of the Estate of Daniel
Borislow,

Defendants.
_______________________________________/

REPORT AND RECOMMENDATION

THIS CAUSE came before the Court upon Defendants' Motion for Attorney's Fees Pursuant to 35 U.S.C. § 285 (ECF No. 166), and Defendants' Bill of Costs (ECF No. 160). These matters were referred to the undersigned by the Honorable Darrin P. Gayles, United States District Judge for the Southern District of Florida. (ECF No. 162). A hearing on these matters was held on August 18, 2015. (ECF No. 178). The Court has reviewed the written and oral arguments, the record, the applicable law, and is otherwise duly advised in the premises.

Background

This patent infringement action involving Voice over Internet Protocol ("VoIP") technology, was filed by Plaintiff NetTalk.com, Inc., against Defendants MagicJack Vocaltec Ltd., Magicjack LP, Magicjack Holdings Corporation, and Daniel Borislow (collectively, "Defendants"), on September 21, 2012, pursuant to the Patent Act, 35 U.S.C. §§ 101, *et seq*. (ECF No. 1). The original

Complaint alleged that, *inter alia*, Defendants infringed on U.S. Patent No. 8,243,722 ("the '722 B2 Patent"), which related to a VoIP communications system containing an analog telephone adapter ("ATA"), with two or more Internet access points, allowing "landline" phones to make calls over the Internet.

On December 17, 2012, the Court stayed the case pending the outcome of an *ex parte* re-examination of the '722 B2 Patent's claims by the United States Patent and Trademark Office ("USPTO") at Defendants' request.[1] (ECF No. 33, 36). Upon re-examination, the USPTO rejected the '722 B2 Patent's claims. (ECF No. 37). During re-examination, Plaintiff amended its patent claims to require not only "multiple separate and independent internet access connections," but also an "internet connection provided by the ATA." The USPTO allowed the Patent to re-issue as amended. (ECF No. 41). On February 27, 2014, the USPTO issued the re-examination certificate (ECF No. 46), with the reissued Patent now listed as U.S. Patent No. 8,243,722 C1 ("the '722 C1 Patent").

The case was reopened on February 5, 2014. (ECF No. 44). Plaintiff filed an amended Complaint on March 20, 2014, alleging that, *inter alia*, Defendants had infringed on the '722 C1 Patent by designing, making, or causing to be made, offering to sell, and selling products that embody and/or practice at least one of the claims of the '722 C1Patent, and that have no substantial non-infringing use. (ECF No. 48).

Defendant Borislow moved to dismiss the claims brought against him individually for failure to state a claim upon which relief could be granted. (ECF No. 52). The Court partially granted the motion dismissing the claims for direct and contributory infringement, but allowing the claims for induced infringement to remain. (ECF No. 68). Mr. Borislow passed away on July 21, 2014. (ECF No. 120).

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[1]"Any person at any time may file a request for reexamination by the Office of any claim of a patent on the basis of any prior art cited under the provisions of section 301 [Citation of prior art and written statements]." 35 U.S.C.A. § 302 (West).

On June 24, 2014, and July 8, 2014, respectively, the parties submitted briefs regarding claim construction setting forth disputed terms and language in the '722 C1 Patent and asking the Court to construe those terms. (ECF Nos. 67, 71). The Court held a Markman hearing on August 29, 2015. (ECF No. 67, 86, 98).

On October 22, 2014, Plaintiff moved for a 90-day stay pending establishment and representation of Mr. Borislow's estate. (ECF No. 102). On November 25, 2014, Plaintiff's counsel moved to withdraw. (ECF No. 126).

On December 1, 2014, Judge Gayles entered an Order on Claims Construction. (ECF No. 129). On December 12, 2014, the Court granted a stay until December 31, 2014, pending appearance of new counsel for Plaintiff. (ECF Nos. 139, 140). New counsel was substituted for Plaintiff on January 1, 2015. (ECF No. 141).

On February 26, 2015, Plaintiff moved to dismiss the case for lack of subject matter jurisdiction based upon a covenant not to sue. (ECF No. 154). The motion was granted on February 27, 2015. (ECF No. 158). A final judgment was entered on June 18, 2015. (ECF No. 172). The Court subsequently dismissed Plaintiff's claims with prejudice and Defendants' claims without prejudice, and reserved jurisdiction to determine attorney's fees and costs. Id. Defendants have moved for attorney's fees in accordance with 35 U.S.C. §285. (ECF No. 166).

Legal Standard

The Patent Act provides that "[t]he court in exceptional cases may award reasonable attorney fees to the prevailing party." 35 U.S.C. §285. Defendants argued that this case was exceptional, thus warranting a fee award. Given the recent changes in this area of the law, the following serves as the framework for the undersigned's analysis.

Until recently, the Federal Circuit adhered to the standard set forth in Brooks Furniture Mfg., Inc. v. Dutailier Int'l, Inc., 393 F.3d 1378 (Fed. Cir. 2005), wherein a case was deemed "exceptional" if there had been some "material inappropriate conduct," or if the action had been both "objectively baseless" and "brought in subjective bad faith." Id. at 1381. Although the decision to award fees remained within the Court's discretion, it required the existence of both elements by clear and convincing evidence. Id.

In Octane Fitness, LLC v. ICON Health & Fitness, Inc., 134 S.Ct. 1749 (2014), the Supreme Court rejected the Brooks standard finding that this framework was unduly rigid and impermissibly encumbered the statutory grant of discretion to district courts. Id. at 1755-56. The Octane Fitness Court further found that this standard would render §285 "largely superfluous," because courts already had the inherent power to award fees for cases involving misconduct or bad faith. Id. at 1758. Moreover, the Supreme Court moved away from a standard of clear and convincing evidence to establish entitlement to fees. Id. Instead, the Court reasoned that patent-infringement litigation has always been governed by a preponderance of the evidence standard, because it allowed both parties to "share the risk of error in roughly equal fashion." Id. (citing Herman & MacLean v. Huddleston, 459 U.S. 375, 390 (1983)).

In construing §285, the Octane Fitness Court held that, since the Patent Act does not define it, "exceptional" should be defined in accordance with its ordinary meaning. Id. Thus, an exceptional case is "simply one that stands out from others with respect to the substantive strength of a party's litigating position (considering both the governing law and the facts of the case) or the unreasonable manner in which the case was litigated." Id. However, "[t]here is no precise rule or formula" guiding the determination of whether a case is exceptional. Id. at 1755-56 (citing Fogerty v. Fantasy. Inc., 510 U.S. 517, 114 S.Ct. 1023, 127 L.Ed.2d 455 (1994)). Courts must engage in a "case-by-case exercise of their discretion, considering the totality of the circumstances." Id. at 1755-56 (citing Fogerty, 510 U.S. 517). Factors relevant to the inquiry include: "frivolousness, motivation, objective unreasonableness (both in the factual and legal components of the case) and the need in particular circumstances to advance considerations of compensation and deterrence." Octane Fitness, 134 S. Ct. at 1756, n. 6 (quoting Fogerty, 510 U.S. at 534, n. 19)).

As with any new ruling, courts are engaged in the initial stages of interpretation. Thus far, however, courts have been reluctant to award fees where a plaintiff has, "set forth some good faith argument in favor of its position." Small v. Implant Direct Mfg., LLC, No. 06-CIV-683 (NRB), 2014 WL 5463621, at *3 (S.D.N.Y. Oct.23, 2014); see also EON Corp. IP Holdings, LLC v. Cisco Sys., Inc., 12-CV-01011-JST, 2014 WL 3726170 (N.D. Cal. Jul. 25, 2014) (denying an award of attorney's fees where infringement contentions lacked merit, but the Court could not conclude that "no reasonable patentee could [find] an opening . . . through which the argument [albeit stretched] could be squeezed").

Courts have noted that, although the post-Octane Fitness fee inquiry is guided by a more lenient standard, an attorney's fee award is still the exception to the American Rule and should be reserved only for rare circumstances. BMW of N. Am., LLC v. Cuhadar, No. 6:14-CV-40-ORL-37DAB, 2014 WL 5420133, at *3 (M.D. Fla. July 10, 2014) (citing Intellect Wireless, Inc. v. Sharp Corp., No. 10-C-6763, 2014 WL 2443871, *5 (N.D. Ill. May 30, 2014)); see

Hi-Tech Pet Products. Inc. v. Shenzhen Jianfeng Electronic Pet, No. 6:14-cv-759-0rl-22TBS, 2015 WL 926023 (M.D. Fla. Mar. 4, 2015) (citing Intellect Wireless, Inc., 2014 WL 2443871, at *5).

Thus, the question before the Court is whether this case is "exceptional," such that Defendants, as the prevailing party in this suit, are entitled to an award of attorney's fees pursuant to § 285.

In this regard, the Court notes that, even if it were to determine that this case was exceptional, Defendants would not be automatically entitled to an award of attorney's fees. See Icon Health & Fitness, Inc. v. Octane Fitness, LLC, 576 F. App'x 1002, 1005 (Fed. Cir. 2014) ("The Supreme Court's decision in Octane did not, however, revoke the discretion of a district court to deny fee awards even in exceptional cases"). A determination as to the propriety of a fee award is a separate discretionary inquiry. See 35 U.S.C. § 285 ("The court in exceptional cases may award reasonable attorney fees to the prevailing party" (emphasis added));RCI TM Corp. v. R & R Venture Group, LLC, No. 6:13-cv-945-Orl-22, 2015 WL 668715, at * 11 (M.D. Fla. Feb. 17, 2015) ("Even if the trial court finds that the circumstances of the case are, in fact, exceptional, the decision whether to award attorney's fees is still discretionary"); Die ter v. B & H Industries of Southwest Florida Inc., 880 F.2d 322, 329 (11th Cir. 1989) (citing Jellibeans, Inc. v. Skating Clubs of Georgia, Inc., 716 F.2d 833, 846 (11th Cir. 1983) ("Even if the trial court finds that the circumstances of the case are, in fact, exceptional, the decision whether to award attorney's fees is still discretionary")). "In determining whether to award attorney's fees, courts consider the closeness of the case, the tactics of counsel, the conduct of the parties, and any other factors that may contribute to a fair allocation of the burdens of litigation as between winner and loser." See H-W Technology, Inc. v. Overstock.com, Inc., No. 3:12-CV-0636-G (BH), 2014 WL 4378750, at * (N.D. Tex. Sept. 3, 2014).

Against this backdrop, the undersigned makes the following findings and recommendations.

Discussion

Defendants argued that this case was deserving of an exceptionality designation under § 285, because Plaintiff pursued baseless claims of infringement and damages and litigated the case in an unreasonable manner. (ECF No. 166).

I. Plaintiff's Infringement Claims.

As noted *supra*, during re-examination, Plaintiff amended its patent claims to require "multiple separate and independent internet access connections," as well as an "internet connection provided by the ATA." Both of these amendments were the basis of Defendants' non-infringement arguments. One was subject to claim construction, while the other was not. Plaintiff focused its argument on the validity of the position dependent upon claim construction.

A. Patent Claim Subject to Claim Construction.

The phrase, "multiple, separate and independent internet access connections," was the subject of claim construction. Defendants argued that this claim became objectively baseless as of December 1, 2014, when the Court issued its Claim Construction Order.

According to Defendants, the most fair reading of this claim was that the multiple, independent access points had to be inside the housing of the ATA. In reaching this conclusion, Defendants relied upon the sworn affidavit of Plaintiff's expert, Dr. Costas Papadopoulos, who stated that Plaintiff's patent claims were different from prior art[2] because the claims required "multiple, separate and independent internet connections to be in the housing of the ATA."

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[2]Prior art is "technology already available to the public...knowledge that is available, including what would be obvious from it, at a given time, to a person of ordinary skill in the art." Kimberly-Clark Corp. v. Johnson & Johnson, 745 F.2d 1437 (Fed. Cir. 1984).

Contrary to Defendants' position, Plaintiff argued that the term referred to direct or indirect connections that were not limited to multiple, separate and independent internet access points in the housing of the ATA. According to Plaintiff, based upon the intrinsic record,[3] which was the drawings and the written matter or the specifications of the patent, as well as the prosecution history, there could be an indirect or direct connection, but there was no limitation on the face of the claims, and there was no support in the specification to read an inner limitation, that these access points be within, or inside, the housing of the ATA.

Moreover, Plaintiff rebutted Defendants' reliance on the Papadopoulus Affidavit arguing that Defendants were reading it too narrowly and out of context. To illustrate the ambiguity of Dr. Papadopoulus' statement in this regard, Plaintiff included an excerpt of the transcript from the Markman hearing wherein Judge Gayles questioned Defendants' interpretation of the affidavit. (ECF No. 167) at p. 155:5-22; 158:1-16; 159:22; 160:7. Judge Gayles noted that when Mr. Papadopolous made his statements about the internet connections being in the housing of the ATA, he was referring to another device of prior art. Id.

Defendants also relied upon the testimony of Plaintiff's Chief Technical Officer, Garry Paxinos. According to Defendants, Mr. Paxinos had defined "multiple separate and independent internet access connections" in a sworn statement before the USPTO in a way that precluded infringement. This argument was premised on Defendants' "in the housing" construction of the same claim term. Plaintiff argued that, because the Court did not construe this claim term as requiring "multiple separate and independent internet access points in the housing of the ATA" until its

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[3] "[I]ntrinsic evidence of record . . . [is] the patent itself, including the claims, the specification and, if in evidence the prosecution history." Vitronics Corp. v. Conceptronic, Inc., 90 F.3d 1576, 1582 (Fed. Cir. 1996).

December 2014 Claim Construction Order, then Defendants could not demonstrate that Plaintiff's proposed construction, or related infringement contention, were objectively baseless or made in bad faith.

Plaintiff argued further that it had a good faith infringement claim that would have gone to trial even if, ultimately, it was unsuccessful. Moreover, Plaintiff argued that Defendants were attempting to elevate the fee request to the level of summary judgment on non-infringement.

The issue is whether Plaintiff's position was tenable and made in good faith, not whether it was ultimately successful. See SFA Sys., LLC v. Newegg Inc., 793 F.3d 1344, 1347-48 (Fed. Cir. 2015) (what matters is "substantive strength," "not the correctness or eventual success of that position" (emphasis in original)). The Court agrees that "for a case dismissed before trial to be designated exceptional, evidence of the frivolity of the claims must be reasonably clear without requiring a "mini-trial" on the merits for attorneys' fees purposes." Charge Lion LLC v. Linear Tech. Corp., No. 6:12-CV-00769 (E.D. Tex. Aug. 25, 2014); SFA Sys., LLC v. 1-800-Flowers.com, Inc., No. 6:11CV399 (E.D. Tex. July 8, 2014), at * 4-5, aff'd *sub nom*; SFA Sys., LLC v. Newegg Inc., 793 F.3d at 1348-49; Trover Group, Inc. v. Dedicated Micros USA, 2:13-CV-1047-WCB, 2015 WL 4910875, at * 3 (E.D. Tex. 2015).

B. Patent Claim Not Subject to Claim Construction.

The asserted claim's requirement for an "internet connection provided by the ATA" was not the subject of claim construction. Mr. Paxinos had tested the device in 2012 and confirmed that it was a sound card, which meant that it did not have an "internet connection provided by the ATA." Defendants argued that, because Plaintiff had already analyzed the accused product when it added that limitation to the asserted claim during re-examination, it knew or should have known, without having to wait for the Court to issue the Claim Construction Order, that there could be no infringement once the patent emerged from re-examination. Thus, Defendants argued that this claim was objectively baseless as of February 27, 2014, when the claim emerged from re-examination.

Defendants argued further that, from its inception, this case was objectively frivolous and should not have been filed. Plaintiff argued that, even assuming its claims were baseless, Defendants should have raised the issue of non-infringement when the case resumed after re-examination. However, Defendants did not move for summary judgment on the issue of infringement; they only attempted to do so on the issue of damages.

2. Damages Claims.

Claiming that Defendants violated its provisional rights in the patent, Plaintiff sought $200 million in damages from June 4, 2009, the date on which Plaintiff filed the provisional patent application.

Entitlement to damages before re-examination requires Plaintiff to show that the original claims and the re-examined claims were substantially identical. Laitraim Corp. v. NEC Corp., 163 F.3d 13423, 1346 (Fed. Cir. 1998). "If substantive changes have been made to the original claims, the patentee is entitled to infringement damages only for the period following the issuance of the reexamination certificate." Id. Thus, Plaintiff must prove that the claims were substantially identical from 2009 through 2014, when the patent emerged from re-examination. If there were any changes to the claims, then Plaintiff could only seek damages from re-examination onward.

Plaintiff argued that the re-examined claims were not substantively changed from the original claims. Plaintiff argued further that claim construction, which Order did not issue until December 1, 2014, bore on the issue of provisional rights.

In opposition, Defendants argued that Plaintiff was not entitled to damages since 2009, because the original claims and the re-examined claims were not identical. Plaintiff added over 100 words to the re-examined claim, including limitations that arguably established Defendants' non-infringement positions. In fact, Defendants unsuccessfully sought leave to file a summary judgment motion as to damages. (ECF No. 79). Moreover, Defendants argued that, even if claim construction bore on provisional rights, it was meaningless in this case because the published application and the issued patent were not substantially identical.

Defendants further argued that Plaintiff's claim against the estate of Borislow made the case exceptional because of the egregious effect it had on the estate and the family. Plaintiff maintained its $200 million claim against Mr. Borislow's estate even after he had ceased to be a part of the company. Moreover, the claim prevented his widow from making any distributions of the estate to any family or creditors.

Rather than addressing the merits of the damages claim, Plaintiff's argument focused on its conduct in attempting to resolve the case following the issuance of the claim construction order. Plaintiff argued that, almost immediately after retaining new counsel and evaluating the Court's claim construction order, Plaintiff began discussing entry of judgment of non-infringement in favor of Defendants, a stay of the proceedings to conserve resources pending an appeal to the Federal Circuit, and, shortly thereafter, a covenant against suit in favor of Defendants and dismissal of the entire case.

Analysis

Based upon these facts, the Court is not persuaded that this case deserves an exceptionality designation. Although Octane Fitness loosened the framework for assessing exceptionality, it remains the exception to the rule. See Small, 2014 WL 5463621, at *3 (noting that, even after Octane Fitness, "courts continue to hold claims of baselessness to a high bar").

A court will generally not find a party with a good-faith argument in favor of its position to have made "exceptionally meritless" claims. See Small, 2014 WL 5463621, at *3; see also EON Corp. IP Holdings LLC, 2014 WL 3726170, at *5 (even when the plaintiff's argument was "quite stretched" and its conduct "difficult to explain," the court could not "quite conclude that no reasonable patentee could see an opening . . . through which the argument could be squeezed"); Gametek LLC v. Zynga, Inc., No. CV 13-2546 RS, 2014 WL 4351414, at *3 (N.D. Cal. Sept. 2, 2014) (while plaintiff's briefing, which "consisted of granular parsing of the claimed steps rather than any substantive explanation of how [the invention] differed from the underlying abstract idea," was inadequate, it "did not . . . descend to the level of frivolous argument or objective unreasonableness").

"Since Octane [Fitness], district courts have awarded fees when the patentee had a history of bringing nuisance value cases, was motivated by a bad faith desire to bankrupt the alleged infringer with litigation costs, resisted discovery requests, made no reasonable effort to verify the defendant's products infringed, engaged in inequitable conduct at the PTO, or made misrepresentations during the litigation." RLIS, Inc. v. Cerner Corp., No. 3:12-CV-209, 2015 WL 5178072, at * (S.D. Tex. Sept. 3, 2015); See Gametek, LLC, 2014 WL 4351414, at *3 (showing that a case is exceptional when it concerns egregious behavior). "[M]ost cases awarding fees continue to involve substantial litigation misconduct." Small, 2014 WL 5463621, at *3.

The infringement claims advanced by Plaintiff in this case were not so baseless as to support a fee award. See Old Reliable Wholesale, Inc. v. Cornell Corp., 635 F.3d 539, 544 (Fed. Cir. 2011) (internal quotations omitted) ("Unless an argument or claim asserted in the course of litigation is so unreasonable that no reasonable litigant could believe it would succeed, it cannot be deemed objectively baseless for purposes of awarding attorney fees." Id. (internal quotations omitted)).

Plaintiff set forth a good faith argument with respect to the interpretation of the phrase, "multiple separate and independent internet access connections." See Small, 2014 WL 5463621, at *3 ("[If] a party has set forth some good faith argument in favor of its position, it will generally not be found to have advanced 'exceptionally meritless' claims"). Its claim construction argument falls into the category of a dispute over claim meaning that, while unlikely to prevail, was nonetheless legitimate to submit to the Court for resolution. The Court does not regard Plaintiff's interpretation as being so unreasonable as to make this an exceptional case. Such push-and-pull over the scope of claim language is common in patent litigation. In fact, that Plaintiff ultimately lost on its claim construction position, standing alone, is insufficient to support a finding of exceptionality within the context of § 285. See SFA Sys., LLC v. Newegg, Inc., 793 F.3d at 1348 (the "correctness or eventual success" of a party's litigation position is not determinative of the attorney fee issue; "[a] party's position on issues of law ultimately need not be correct for them not to 'stand[ ] out,' or be found reasonable" (alteration in original)); See H-W Technology, Inc., 2014 WL 4378750, at *4 ("Plaintiff may have asserted a losing argument but this does not amount to the type of extraordinary misconduct reserved for finding a case exceptional"); Calypso Wireless, Inc. v. T–Mobile USA Inc., No. 2:08-CV-441, 2015 WL 1022745, at *5 (E.D. Tex. Mar. 5, 2015) ("[T]he Court does not consider a case 'exceptional' simply because there is dispute over the construction of patent claims and that a defendant or plaintiff's construction proved to be incorrect–there must be more."); Bianco v. Globus Medical, Inc., No. 2:12-CV-00147, 2014 WL 1904646, at *2 (E.D. Tex. Apr. 17, 2014) (the fact that the Court ruled against the plaintiff on an issue does not mean that the defendant has shown that the plaintiff's position was frivolous). Indeed, an award of fees is not "a penalty for failure to win a patent infringement suit." Octane Fitness, 134 S.Ct. at 1753 (quoting Park-In-Theatres, Inc. v. Perkins, 190 F.2d 137, 142 (9th Cir. 1951)); see Gaymar Indus., Inc. v. Cincinnati Sub-Zero Prods., Inc., 790 F.3d 1369, 1373 (Fed. Cir. 2015) ("fees are not awarded solely because one party's position did not prevail").

With respect to the claim element not requiring claim construction, the Court agrees that Plaintiff's argument in this regard was weak and, possibly, meritless. Standing alone, however, it is insufficient to render this case extraordinary. See EON Corp. IP Holdings, LLC, 2014 WL 3726170, at *5 ("the Court agrees that EON's infringement contentions lack merit. But that by itself is not enough to render a case 'extraordinary').

Furthermore, as recently noted by the undersigned,

> It is also important to note that no Rule 11 Motion was ever filed in this case. Here, Quintron insists that this case was objectionably frivolous from its inception and should never have been filed. Well, Rule 11 is the remedy for that.

Commonwealth Laboratories, Inc. v. Quintron Instrument Company, Inc., Case No. 1:14-cv-20083-PAS, Report and Recommendation dated 07/20/2015 (ECF No. 98). Yet, in this case, as in the one cited, Defendants never sought relief under any applicable rule.

After considering the totality of the circumstances, the undersigned cannot conclude that Defendants have met their burden of establishing that this case is "extraordinary" to warrant fee-shifting under the Patent Act. Therefore, in its discretion, the undersigned **RECOMMENDS** that the Court decline to award attorney's fees to Defendants under 35 U.S.C. § 285.

3. Manner of Litigation.

Lastly, Defendants argued that Plaintiff's conduct in this case also warranted an exceptionality designation. In support, Defendants pointed to various discovery issues regarding depositions, expert reports, and production, but cited no cases finding similar conduct to be exceptional.

Plaintiff argued that, at the time the Court issued its Order on Claim Construction, on December 1, 2014, it did not have counsel. New counsel made an appearance on Plaintiff's behalf on January 1, 2015. A few days later, Plaintiff began working toward resolution of the case. The Court then granted Plaintiff a thirty-day extension due to counsel's spine surgery scheduled for January 28, 2015. Plaintiff argued that it was not unreasonable to wait until the new year to retain new counsel to review the Claim Construction Order for viability of claims. Defendants argued that, notwithstanding new counsel's efforts, Plaintiff's prior counsel had already maintained, for over two years, a lawsuit it knew, or should have known, was baseless.

The undersigned finds that, although the conduct of Plaintiff and Plaintiff's counsel in this litigation, at times, may have been less than desirable, it was not so unreasonable as to warrant a finding of exceptionality. Even if Plaintiff failed to prosecute the case as efficiently as possible, there was no evidence of egregious conduct justifying a fee award. See Adaptix, Inc. v. Apple, Inc., 2015 WL 5158716, at *2 (N.D. Cal. Sept. 2, 2015) ("While there can be no question that at times this case was not prosecuted as efficiently as possible, the court is not persuaded that any exceptional circumstances arose justifying an award of attorney's fees"). Assuming Plaintiff may have been guilty of failing to timely respond to discovery requests, there was no evidence that the delays caused any actual prejudice to Defendants' rights. In fact, contrary to Defendants' arguments concerning

Plaintiff's failure to comply with Court-ordered discovery, the Court's deadline for the completion of discovery was March 2, 2015; however, this case was dismissed before that deadline, on February 27, 2015. Moreover, the Court notes that Defendants did not seek sanctions for the alleged discovery violations. Indeed, as Plaintiff argued, during the course of this entire litigation, no party was sanctioned for discovery abuses or otherwise.

In evaluating the totality of the circumstances and in view of the absence of Eleventh Circuit authority interpreting Octane Fitness, the Court finds an award of fees for an "exceptional" case under § 285 of the Patent Act to be inappropriate here, and, therefore, respectfully **RECOMMENDS** that Defendants' request for an award of fees under § 285 be **DENIED**.

At the hearing, Plaintiff argued, for the first time, that a $2 million sanction would put it out of business. Because the undersigned finds that this case does not warrant a fee award under § 285, any consideration of Plaintiff's financial circumstances is deemed moot.

Defendants' Bill of Costs (ECF No. 160)

Defendants indisputably became the prevailing party following Plaintiff's covenant not to sue and the Court's Rule 41(a)(2) dismissal with prejudice. Am. Tech. Inc. v. Am. Future Tech. Corp., No. 6:11-CV-113-ORL-22, 2012 WL 859345, at *1 (M.D. Fla. Mar. 14, 2012). As the prevailing party, Defendants sought to recover costs in the total amount of $39,719.27, as follows: (1) $695.00 in fees for the service of summons and subpoenas; (2) $15,901.11 in fees for printed or electronically recorded transcripts; (3) $139.50 in fees and disbursements for printing; and (4) $22,983.66 in fees for exemplification and copies. Plaintiff agreed that Defendants were entitled to recover costs in the amount of $6,664.35, but objected to the remaining costs of $33,054.92.

(1) Fees for service of summons/subpoenas. Defendants sought to recover the cost of subpoenas served on several third parties. Currently, the U.S. Marshal charges $65.00 per hour to serve a subpoena. 28 C.F.R. § 0.114(a)(3). Plaintiff agreed that Defendants were entitled to recover $185.00 in costs for the service of subpoenas on Leo Manzewitsch, Costas Papadopoulos, and Alex Hewko, but objected to the remaining $510.00 in costs for service of document subpoenas.

The undersigned finds that the costs incurred in serving document subpoenas are recoverable. See Burke-Thompson v. Baptist Health S. Florida, Inc., 06-20766-CIV, 2008 WL 4791018, at *3 (S.D. Fla. Nov. 3, 2008) (allowing recovery of costs of service of process fees for subpoenas served for documents and/or for attendance at depositions); Spatz v. Microtel Inns & Suites Franchising, Inc., 11-60509-CIV, 2012 WL 1587663, at *2 (S.D. Fla. May 4, 2012) (allowing recovery of costs for service of two document-production subpoenas by private process servers). Thus, the undersigned **RECOMMENDS** that Defendants recover the full amount of $695.00 in fees for service of subpoenas.

(2) Fees for printed or electronically recorded transcripts. Defendants sought to recover costs in the total amount of $15,901.11 for the transcripts of four hearings and five depositions.

A. Pre-trial Hearings. The pre-trial hearing transcripts totaled $1,381.26, as follows: (1) July 25, 2014 Status Conference; (2) September 10, 2014 Markman Hearing; (3) December 11, 2014 Motion Hearing; and (4) January 28, 2015 Status/Scheduling Conference.

Defendants argued that the July 25, 2014 and December 11, 2014 hearings contained rulings that were not memorialized in a court order. At the July 25, 2014 hearing, Plaintiff stipulated that it was only pursuing claim 3, and the Court ruled that Plaintiff must show good cause to later assert another claim. At the hearing on December 11, 2014, the Court instructed Defendants not to file a motion to compel until new counsel appeared for Plaintiff, which motion would not be deemed untimely. With respect to the Markman hearing, Defendants argued that its importance was on par with a trial, as it was an evidentiary proceeding including substantial opposing expert testimony. With respect to the January 28, 2015 hearing, Plaintiff admitted that it could not prevail. Plaintiff argued that the transcript was not necessary because it had admitted that it could not prevail during settlement discussions. Finally, Plaintiff argued that Defendants did not establish why the transcripts were ordered on an expedited basis.

"Hearing transcript costs are taxable when reasonably obtained 'in preparation for additional argument and/or motion practice.'" Luka v. City of Orlando, No. 6:07-cv-841-ORL-22GJK, 2011 WL 4837263, at *7 (M.D. Fla. Sept. 23, 2011) report and recommendation adopted, 2011 WL 4836229 (M.D. Fla. Oct. 12, 2011) (quoting U.S. Fire Ins. Co. v. Mikes, No. 8:04-cv-2783-T-23TBM, 2008 WL 61602, at *3 (M.D. Fla. Mar. 3, 2008)).

The undersigned agrees that Defendants are entitled to recover the costs of the hearing transcripts. However, in the absence of evidence that it was necessary to expedite the transcripts for these hearings, the Court finds that those costs should not be allowed. Rodriguez v. Marble Care Intern., Inc., 862 F.Supp.2d 1316, 1320 (S.D. Fla. Feb. 8, 2012); Licausi v. Symantec Corp., No. 08-60544-CIV, 2009 WL 3177566, at *3 (S.D. Fla. Sept. 29, 2009) ("[F]ees for expedited or condensed transcripts, compressed and miniscript versions, and CD ROM's with ASCII are not reimbursable under § 1920").

Therefore, the undersigned **RECOMMENDS** that Defendants be awarded $1,057.26 in costs for the hearing transcripts, which is calculated at the ordinary rate of $4.02 per page.

B. Depositions. Plaintiff did not object to the recovery of the cost of the deposition transcripts for: (1) inventor Leo Manzewitsch; (2) expert witness Frank Koperda; (3) expert witness

John Garney; (4) NetTalk executive Nick Kyriakides; and (5) inventor Garry Paxinos. As such, the undersigned **RECOMMENDS** that Defendants recover the amount of $6,014.35 in deposition transcripts.

In addition, Defendants sought to recover various other costs associated with the depositions as follows:

1. Rough Transcript. Defendants sought to recover the cost of the rough transcripts for Koperda's deposition who was deposed the day before the Markman hearing. Plaintiff did not object. Thus, the undersigned **RECOMMENDS** that Defendants recover the cost of the rough transcript in the amount of $325.50.

2. Court Reporter Attendance Fee. Defendants also requested taxation of the court reporter's attendance fee for each deposition, totaling $1,620.00. Plaintiff objected citing a case from this District wherein such costs were denied. However, the undersigned notes that numerous courts, including this one, have ruled that attendance fees of court reporters are taxable costs, because it is necessary for the court reporter to appear, record the testimony, and then prepare the deposition transcript. See Rodriguez v. M.I. Quality Lawn Maint., Inc., No. 10-21031-CIV, 2012 WL 664275, at *4 (S.D. Fla. Feb. 9, 2012) (collecting cases). This Court agrees that the appearance fees of the court reporters are directly related to transcript preparation. Accordingly, the undersigned **RECOMMENDS** that the court reporter appearance fees in the amount of $1,620.00 be taxed as costs.

3. Videotaped Depositions. Defendants sought to recover costs, totaling $6,560.00, for the videos of all five depositions, as well as costs ancillary thereto, such as fees for the time of the videographer. All of the depositions were noticed to be recorded by both stenographic and non-stenographic means. There is no claim that Plaintiff objected to the format of these depositions at the time they were taken.

The costs of a video deposition may be allowed when a party notices a deposition to be recorded by both stenographic and non-stenographic means, no objection is raised by the other party at that time to the method of recordation, and copies of the videos were necessarily obtained for use in the case. Morrison v. Reichhold Chems., Inc., 97 F.3d 460, 465 (11th Cir. 1996); J.G. v. Carnival Corp., 12-21089-CIV, 2013 WL 5446412, at *3 (S.D. Fla. Sept. 28, 2013). The prevailing party must explain why it was necessary to obtain both a transcript and a videotaped recording of a deposition. Castillo v. Roche Laboratories, Inc., No. 10-20876-CV, 2012 WL 381200, at * 3 (S.D. Fla. Feb. 6, 2012); Scottsdale Ins. Co. v. Wave Technologies Communications, Inc., No. 8:07-cv-1329-T-30MAP, 2012 WL 750317, at * 2 (M.D. Fla. Mar. 7, 2012).

Defendants argued that there was no guarantee that the witnesses would be within the subpoena power of the court at the time of trial, and that Plaintiff had chosen to videotape the deposition of its own expert as well. All but one of the witnesses were either third-party witnesses or witnesses within Plaintiff's control. Though Garney was Defendants' expert witness, they could not be sure that he would be available for trial. Plaintiff objected arguing that not knowing whether the witnesses would be available for trial was insufficient to support this expenditure because these witnesses could be subpoenaed pursuant to Rule 45.

Defendants have not shown that both methods of recording were necessary. Accordingly, Defendants may recover the costs of the stenographic transcripts but are not entitled to the disputed videotaping costs of the same witnesses. DuChateau v. Camp Dresser & McKee, Inc., No. 10-60712-CIV, 2012 WL 1069166, at *3 (S.D. Fla. Mar. 29, 2012); D.B. v. Orange County, Fla., No. 6:13-cv-

434-Orl-31DAB, 2015 WL 847293, at *2-3 (M.D. Fla. Feb. 26, 2015). Thus, the undersigned **RECOMMENDS** that the cost of the video depositions not be taxed against Plaintiff.

(3) Fees and disbursements for printing. Plaintiff did not object to Defendants' request for printing fees. As such, the undersigned **RECOMMENDS** that Defendants recover $139.50 in printing fees.

(4) Fees for exemplification and copies. Defendants sought to recover $13,005.39 for photocopies, and $9,978.27 for time spent in preparing documents for production. Plaintiff objected to both of these costs. Upon review of the materials, the Court concludes that only a portion of copying was sufficiently supported as reasonably necessary.

Plaintiff argued that Defendants had not shown that the copies were necessarily obtained for use in the case as they did not show the nature of the copied documents or how they were used in the case. Moreover, Defendants provided no supporting affidavit that the copies were actually used at any depositions.

It is well-established that the movant must provide information regarding the purpose of the copies and whether they related to the claims at issue. See Helms v. Wal-Mart Stores, Inc., 808 F. Supp. 1568, 1570 (N.D. Ga. 1992), aff'd, 998 F.2d 1023 (11th Cir. 1993); see also Lee v. American Eagle Airlines, Inc., 93 F.Supp.2d 1322, 1335-36 (S.D. Fla. 2000) (declining to tax photocopy costs lacking description).

Defendants argued that it was apparent from the date of the copies that the majority were effected for purposes of depositions occurring in August 2014, November 2014, or February 2015. While the attached invoices roughly correspond to those dates, almost no details were provided regarding the purpose of each copy order or the general content of the documents. Absent such information, the Court cannot evaluate whether the requested copying charges were necessary and reasonable. See Brooks v. Peer Review Mediation and Arbitration, Inc., No. 11-61630-CIV, 2012 WL 5410405, at *5 (S.D. Fla. Nov. 6, 2012); see also Monelus v. Tocodrian, Inc., 609 F.Supp.2d 1328, 1335 (S.D. Fla. 2009) (explaining that the prevailing party "cannot simply make unsubstantiated claims that copies of the documents were necessary"). Consequently, the undersigned **RECOMMENDS** that these costs not be taxed against Plaintiff.

Two of the three invoices (6/17/2014 TransPerfect Invoice, and 8/29/2014 Ricoh Invoice) from outside vendors indicated that the copies were made for depositions. The Transperfect invoice totaled $3,579.14 in black and white copies, at .10 per page, and color copies, at .79 per page. The Ricoh invoice totaled $2,448.40 in black and white copies, at .10 per page, and color copies, at .75 per page. The undersigned finds that these invoices may be taxed against Plaintiff. In this connection, the undersigned finds that the requested rate of $.10 per black and white copies is reasonable. James v. Wash Depot Holdings, Inc., 242 F.R.D. 645, 652 (S.D. Fla. 2007) (holding reasonable rate of ten cents per page for copying in Southern District). However, the rate of $.79 per page for color copies is not within the reasonable range of rates for the Southern District of Florida. See Castillo v. Teledyne Continental Motors, Inc., No. 08-21850-CV, 2011 WL 1343051, at *4 FN 14 (S.D. Fla. Mar. 16, 2011) (finding rate of $.35 to be reasonable for color copies). Given limited guidance on this issue, the undersigned finds that the rate for the color copies should be reduced to $.35 per page. As such, for these two invoices, the undersigned **RECOMMENDS** that Defendants recover $3,464.90 in black and white copies and color copies at the reduced rate.

The remaining invoice from outside vendor Ricoh, dated 7/9/14, in the amount of $244.20, does not specify what the copies were for and so is not recoverable. As such, the undersigned

RECOMMENDS that these costs not be taxed against Plaintiff.

The Court will accept that the charges incurred on 6/30/14, 7/31/14, 9/30/14, and 10/31/14, totaling $747.27, were for discovery. The undersigned finds that the balance of the requested copying costs are not recoverable, as Defendants failed to specifically identify that they were necessarily incurred and were not merely for convenience and failed to show the nature of the copied documents or how they were used in the case.

Accordingly, the undersigned **RECOMMENDS** that Defendants be awarded a total of $4,212.17 in copying costs.

B. Document Production. Defendants sought to recover the costs of preparing documents for production in-house by either Fenwick & West, LLP, or Vinson & Elkins, LLP. Plaintiff objected to this expenditure arguing that it constituted paralegal time for preparing and processing documents for production, at an hourly rate of $260.00, which was not recoverable under § 1920. Defendants argued that the individuals who spent time preparing documents for production–David Tran, Brad Bonnington, Janice Sossaman, Lynn Young, and Laura McDuffie–were not paralegals, but rather in-house technology and document production specialists. Moreover, Defendants argued that they likely saved substantial sums of money by preparing documents for production in-house rather than outsourcing to a vendor.

Though § 1920 has been broadened to allow for copying materials, as opposed to just papers, many courts, including Race Tires America, Inc. v. Hoosier Racing Tire Corp., 674 F.3d 158, 169 (3d Cir. 2012), Country Vintner of North Carolina, LLC v. E. & J. Gallo Winery, Inc., 718 F.3d 249, 260 (4th Cir. 2013), and Finnerty v. Stiefel Laboratories, Inc., 900 F.Supp.2d 1317, 1322 (S.D. Fla. 2012), have concluded that the amended statute, though broader, does not permit the taxation of all electronic discovery costs. In Race Tires, the Third Circuit persuasively reasoned that "only the conversion of native files to TIFF (the agreed-upon default format for production of electronic discovery), and the scanning of documents to create digital duplicates are generally recognized as the taxable 'making copies of material.'" Race Tires, 674 F.3d at 167. Although the Eleventh Circuit has not adopted Race Tires, the undersigned finds the Third Circuit's reasoning persuasive. "A holding to the contrary . . . would muddy the distinction between taxable costs, which are generally available to the prevailing party, and attorneys fees, which generally are not available absent a fee-shifting agreement or statute." Finnerty, 900 F.Supp.2d at 1322.

Invoices for 6/17/14, 7/30/14, 7/31/14, 8/8/14, 9/4/14, 9/10/14, 10/8/14, 10/14/14, 10/16/14, totaling $3,263.00, set forth that they were for preparation of data in anticipation of document production. This description is insufficient for the Court to determine whether the costs are properly recoverable under § 1920. Invoices for 12/1/14, 12/2/14, 12/4/14, 12/4/14, 12/9/14, 12/10/14, totaling $5,968.00, set forth that they were for, *inter alia*, preparation of production disks for production; production processing; creation of production database; identification of documents for production; and preparation of source code files for production. None of these tasks appear to constitute making copies under § 1920. As such, the undersigned **RECOMMENDS** that these costs be denied in their entirety.

Recommendation

Accordingly, it is hereby **RESPECTFULLY RECOMMENDED** that Defendants' Motion for Attorneys' Fees Pursuant to 35 U.S.C. § 285 (ECF No. 166) be **DENIED**, Defendants' Bill of Costs (ECF No. 160) be **GRANTED IN PART AND DENIED IN PART**, as set forth herein, and Defendants recover the amount of $14,063.78 in costs.

Pursuant to S.D. Fla. Magistrate Rule 4(b), the parties may serve and file written objections to this Recommendation with the Honorable Darrin P. Gayles, United States District Judge for the Southern District of Florida, within fourteen (14) days after being served with a copy of this Report and Recommendation. Failure to file timely objections shall bar the parties from attacking on appeal any factual findings contained herein. RTC v. Hallmark Builders, Inc., 996 F.2d 1144 (11th Cir. 1993); LoConte v. Dugger, 847 F.2d 745 (11th Cir. 1988).

RESPECTFULLY RECOMMENDED in Chambers at Miami, Florida, this 20th day of November 2015.

WILLIAM C. TURNOFF
United States Magistrate Judge

cc: Hon. Darrin P. Gayles
All Counsel of Record

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO. 12-81022-CIV-GAYLES

NET TALK.COM, INC.,

Plaintiff,

v.

MAGICJACK VOCALTEC LTD.,
et al.,

Defendants.
_________________________________/

FINAL JUDGMENT

On February 27, 2015, the Court entered an order dismissing the claims of Plaintiff Net Talk.com, Inc. with prejudice and the counterclaims of Defendants magicJack VocalTec Ltd., magicJack LP, magicJack Holdings Corporation, and Michele Borislow, Personal Representative of the Estate of Daniel Borislow without prejudice. In accordance with that order it is hereby:

ORDERED AND ADJUDGED that Plaintiff's claims are **DISMISSED WITH PREJUDICE** and Defendants' counterclaims are **DISMISSED WITHOUT PREJUDICE**. It is further

ORDERED AND ADJUDGED that the Court reserves jurisdiction to determine attorneys' fees and costs.

DONE AND ORDERED in Chambers at Miami, Florida this 18th day of June, 2015.

Honorable Darrin P. Gayles
United States District Judge

UNITED STATES DISTRICT COURT
SOUTHERN DISTRICT OF FLORIDA

CASE NO: 12-81022-CIV-GAYLES/TURNOFF

NET TALK.COM, INC.,

Plaintiff,

vs.

MAGICJACK VOCALTEC LTD.,
MAGICJACK LP, MAGICJACK
HOLDINGS CORPORATION, and
MICHELLE BORISLOW, personal
Representative of the Estate of Daniel
Borislow,

Defendants.
______________________________/

FINAL JUDGMENT

THIS CAUSE came before the Court on the Order of February 9, 2016 [ECF No. 186], in which the Court granted in part and denied in part Defendants' Bill of Costs. Pursuant to Federal Rule of Civil Procedure 58, it is

ORDERED AND ADJUDGED that judgment is entered in favor of Defendants MagicJack Vocaltec Ltd., MagicJack LP, MagicJack Holdings Corporation, and Michelle Borislow, personal representative of the Estate of Daniel Borislow and against Plaintiff NetTalk.com, Inc. Defendants shall recover from Plaintiff the amount of $14,063.78, at a post-judgment interest rate of .55 percent. **FOR WHICH LET EXECUTION ISSUE**.

DONE AND ORDERED in Chambers at Miami, Florida this 1st day of March, 2016.

Honorable Darrin P. Gayles
United States District Judge

EXHIBIT A

US008243722C1

(12) EX PARTE REEXAMINATION CERTIFICATE (10062nd)

United States Patent (10) **Number: US 8,243,722 C1**

Rodriguez et al. (45) **Certificate Issued: Feb. 27, 2014**

(54) **VOIP ANALOG TELEPHONE SYSTEM**

(75) Inventors: **Mark F. Rodriguez**, North Miami, FL (US); **Anastasios Takis Kyriakides**, North Miami, FL (US); **Kenneth Hosfeld**, North Miami, FL (US); **Leo Manzewitsch**, North Miami, FL (US)

(73) Assignee: **Net Talk.com, Inc.**, North Miami, FL (US)

Reexamination Request:
No. 90/012,634, Sep. 14, 2012

Reexamination Certificate for:

Patent No.:	**8,243,722**
Issued:	**Aug. 14, 2012**
Appl. No.:	**12/366,851**
Filed:	**Feb. 6, 2009**

(51) **Int. Cl.**
H04L 12/66 (2006.01)

(52) **U.S. Cl.**
USPC **370/352**; 370/463; 370/252; 370/401

(58) **Field of Classification Search**
None
See application file for complete search history.

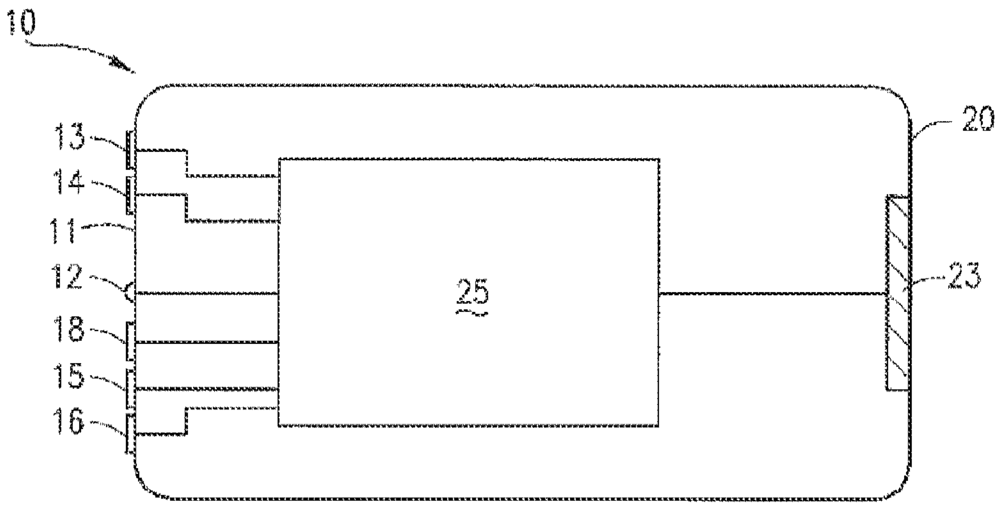
(56) **References Cited**

To view the complete listing of prior art documents cited during the proceeding for Reexamination Control Number 90/012,634, please refer to the USPTO's public Patent Application Information Retrieval (PAIR) system under the Display References tab.

Primary Examiner — William H. Wood

(57) **ABSTRACT**

A multi-port VoIP telecommunications system that allows the user to gain access to telephone connectivity through the Internet by connecting directly to the Internet or by connecting to the Internet through the existing Internet connection of a computer or cell phone device. The present system includes an Ethernet port, a Wi-Fi receiver to facilitate the transmission and receipt of Internet protocol signals wirelessly, and a USB plug connectable to the ATA.



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EX PARTE REEXAMINATION CERTIFICATE ISSUED UNDER 35 U.S.C. 307

THE PATENT IS HEREBY AMENDED AS INDICATED BELOW.

Matter enclosed in heavy brackets [ ] appeared in the patent, but has been deleted and is no longer a part of the patent; matter printed in italics indicates additions made to the patent.

AS A RESULT OF REEXAMINATION, IT HAS BEEN DETERMINED THAT:

Claims **1** and **3** are determined to be patentable as amended.

Claim **2**, dependent on an amended claim, is determined to be patentable.

1. A Voice over Internet Protocol (VoIP) telephone system that enables VoIP telephony and facsimile services allowing a user to gain access to telephone connectivity between an analog handset telephone and the internet, said system having multiple separate and independent internet access connections for connecting to the internet, each separate internet connection selectable by the user comprising:

an analog telephone for transmitting and receiving sound;

an analog telephone adapter (ATA) comprising a rigid housing, said housing containing a central processor, a non-transitory storage medium, a memory source, a network interface card (NIC), said ATA housing having at least one USB port, an Internet input, and a telephone port;

said analog telephone connected to said ATA telephone port for transmission and receipt of electronic signals from the ATA;

said ATA being configured *for multiple separate and independent internet access connections wherein each of the separate internet connections is selectable by the user,*

said ATA providing plug-in-play functionality, wherein the plug-in-play functionality allows the ATA to auto configure to operate using an independent internet access connection selected by the user; and

wherein the plug-in-play functionality allows the ATA to auto configure to use an internet access connection without a computer connection; and

wherein the internet connection provided by the ATA comprises a multi-port plug-in-play approach, to optionally be connected by a user to either a first internet access connection or a second different internet access connection or third different internet access connection and to a switched telephone network through the internet such that it can transmit and receive telephone calls**[;]** *without the analog telephone being wired through a PSTN,*

wherein the ATA automatically detects a type of internet connection selected by the user, which connection is automatically detected without a computer connection; and

wherein the ATA auto configures to operate using the user selected internet connection;

said system having said first internet access connection including said ATA connected to a computer, a USB cord connected to said computer and to said USB port in said analog telephone adapter, a modem connected to said computer, and said modem connected to said internet;

said system having said second different internet access connection including said ATA connected to a USB electronic plug adapter, a USB plug cord connected to said USB plug adapter and said analog telephone adapter (ATA) USB port, an Ethernet cord, a router connected directly or indirectly to said Ethernet cord, said analog telephone adapter connected to said Ethernet cord, said modem connected to said internet, said analog telephone adapter powered by said USB plug adapter; and

said system having said third different internet access connection including said ATA connected to a wireless router connected to the internet, Wi-Fi adapter connected to said analog telephone adapter including the analog telephone adapter NIC component, a USB electric plug adapter connected to said analog telephone adapter to provide power; and

whereby a user of said analog telephone can call other telephone handset users over the internet using said first internet access connection or said second internet access connection or said third internet access connection using said ATA.

3. A Voice over Internet Protocol (VoIP) telephone system that enables VoIP telephony and facsimile services allowing a user to gain access to telephone connectivity between an analog handset telephone and the internet, said system having multiple separate and independent internet access connections for connecting to the internet, each separate internet connection selectable by the user comprising:

an analog telephone for transmitting and receiving sound;

an analog telephone adapter (ATA) comprising a rigid housing, said housing containing a central processor, a non-transitory storage medium, a memory source, a network interface card (NIC), said ATA housing having at least one USB port, an Internet input, and a telephone port;

said analog telephone connected to said ATA telephone port for transmission and receipt of electronic signals from the ATA;

said ATA being configured *for multiple separate and independent internet access connections wherein each of the separate internet connections is selectable by the user,*

said ATA providing plug-in-play functionality, wherein the plug-in-play functionality allows the ATA to auto configure to use an Internet access connection selected by the user; and

wherein the plug-in-lay functionality allows the ATA to auto configure to use an internet access connection without a computer connection; and

wherein the Internet connection provided by the ATA comprises a multi-port plug-in-play approach, to optionally be connected by a user to either a first internet access connection or a second different internet access connection and to a switched telephone network through the internet such that it can transmit and receive telephone calls from other telephone handsets**[;]** *without the analog telephone being wired through a PSTN,*

wherein the ATA automatically detects a type of internet connection selected by the user, which connection is automatically detected without a computer connection; and

wherein the ATA auto configures to operate using the user selected Internet connection;

said system having said first internet access connection including said ATA connected to a computer, a USB cord connected to said computer and to said USB port in said analog telephone adapter, a modem connected to said computer, and said modem connected to said internet;

said system having said second different internet access connection including said ATA connected to a USB electronic plug adapter, a USB plug cord connected to said USB plug adapter and said analog telephone adapter (ATA) USB port, an Ethernet cord, a router connected directly or indirectly to said Ethernet cord, said analog telephone adapter connected to said Ethernet cord, said modem connected to said internet, said analog telephone adapter powered by said USB plug adapter; and

whereby a user of said analog telephone can call other telephone handset users over the internet using said first internet access connection or said second internet access connection using said ATA.

* * * * *

EXHIBIT B

US008243722B2

(12) **United States Patent**
Rodriguez et al.

(10) **Patent No.: US 8,243,722 B2**
(45) **Date of Patent: Aug. 14, 2012**

(54) **VOIP ANALOG TELEPHONE SYSTEM**

(75) Inventors: **Mark F. Rodriguez**, North Miami, FL (US); **Anastasios Takis Kyriakides**, North Miami, FL (US); **Kenneth Hosfeld**, North Miami, FL (US); **Leo Manzewitsch**, North Miami, FL (US)

(73) Assignee: **Net Talk.com, Inc.**, Miami, FL (US)

(*) Notice: Subject to any disclaimer, the term of this patent is extended or adjusted under 35 U.S.C. 154(b) by 74 days.

(21) Appl. No.: **12/366,851**

(22) Filed: **Feb. 6, 2009**

(65) **Prior Publication Data**

US 2009/0141708 A1 Jun. 4, 2009

(51) **Int. Cl.**
H04L 12/66 (2006.01)

(52) **U.S. Cl.** **370/352**; 370/463; 370/252; 370/401

(58) **Field of Classification Search** 370/352–356, 370/463, 252, 401
See application file for complete search history.

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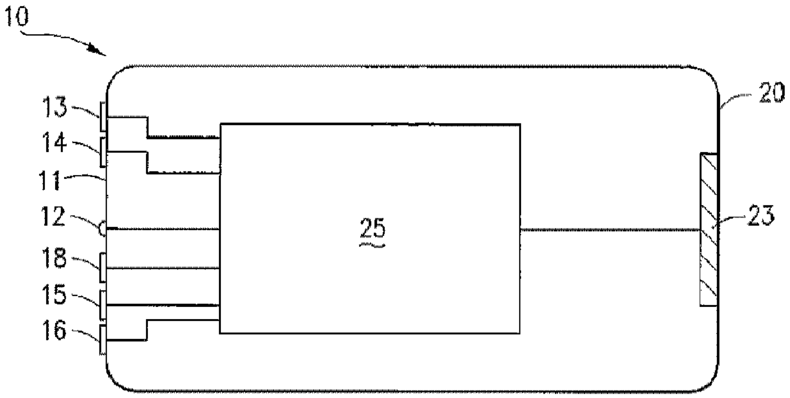
Primary Examiner — Kwang B Yao
Assistant Examiner — Candal Elpenord
(74) *Attorney, Agent, or Firm* — Malin Haley DiMaggio Bowen & Lhota, P.A.

(57) **ABSTRACT**

A multi-port VoIP telecommunications system that allows the user to gain access to telephone connectivity through the Internet by connecting directly to the Internet or by connecting to the Internet through the existing Internet connection of a computer or cell phone device. The present system includes an Ethernet port, a Wi-Fi receiver to facilitate the transmission and receipt of Internet protocol signals wirelessly, and a USB plug connectable to the ATA.

3 Claims, 4 Drawing Sheets



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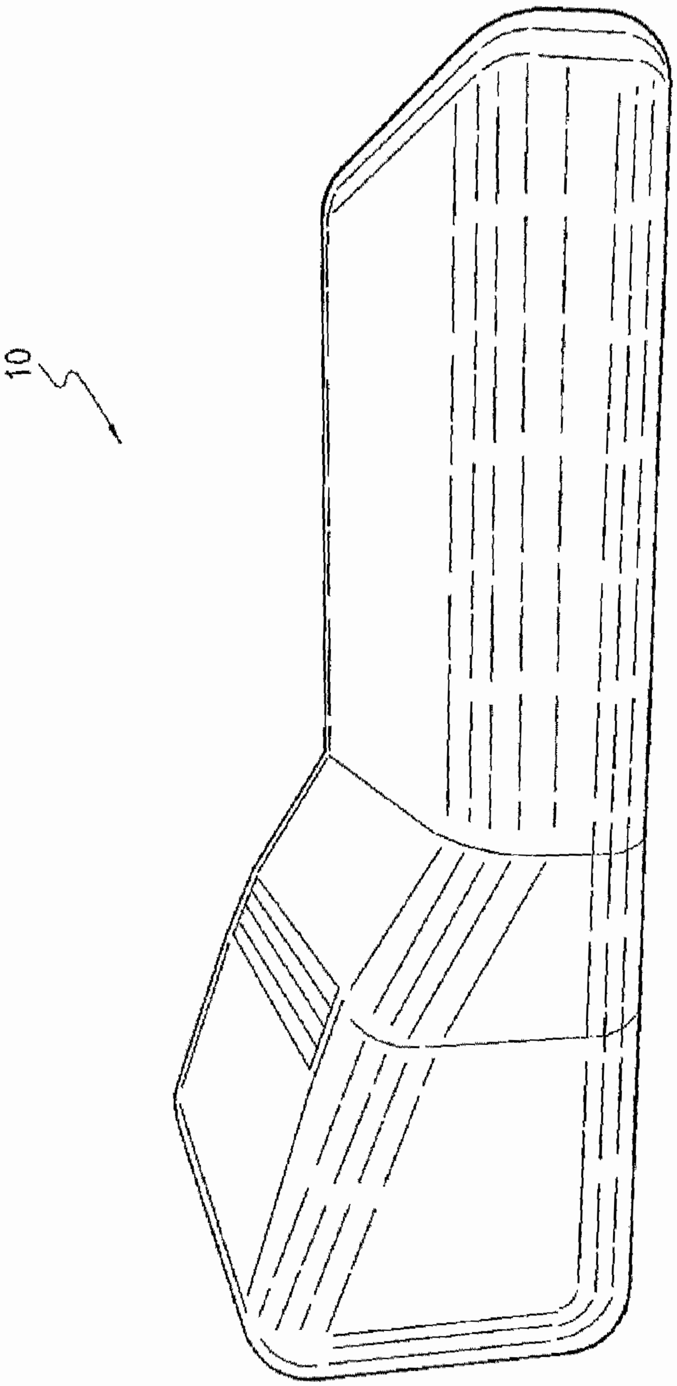

FIG. 1

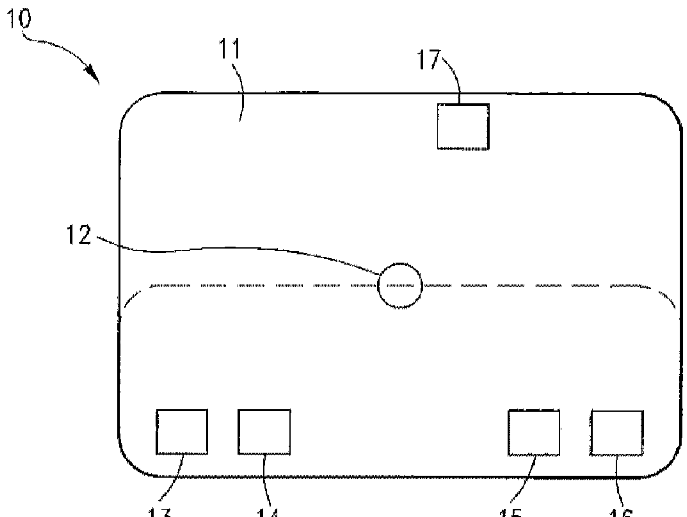
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FIG. 2

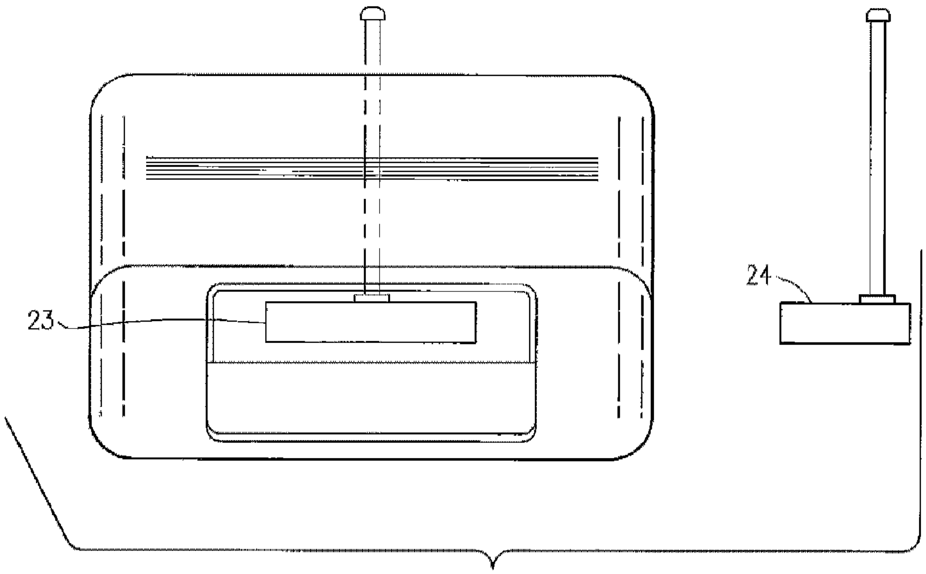

FIG. 3

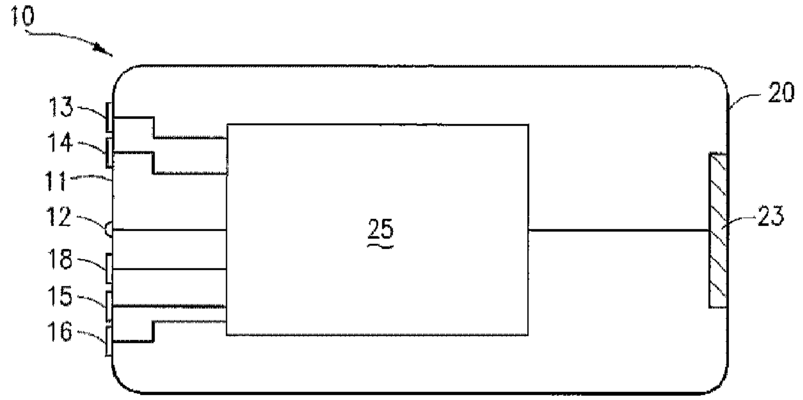
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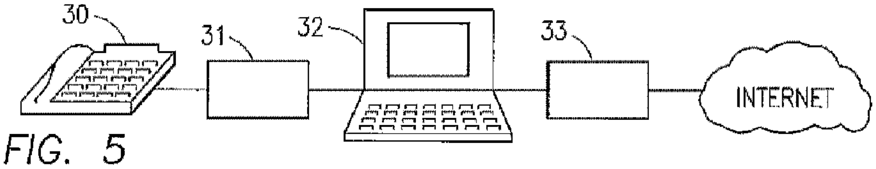
FIG. 4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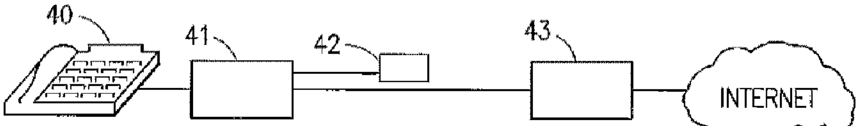
INTERNET

FIG. 5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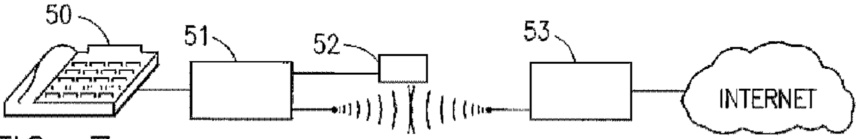
INTERNET

FIG. 6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INTERNET

FIG. 7

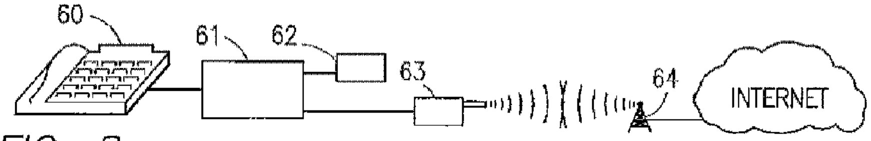
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FIG. 8

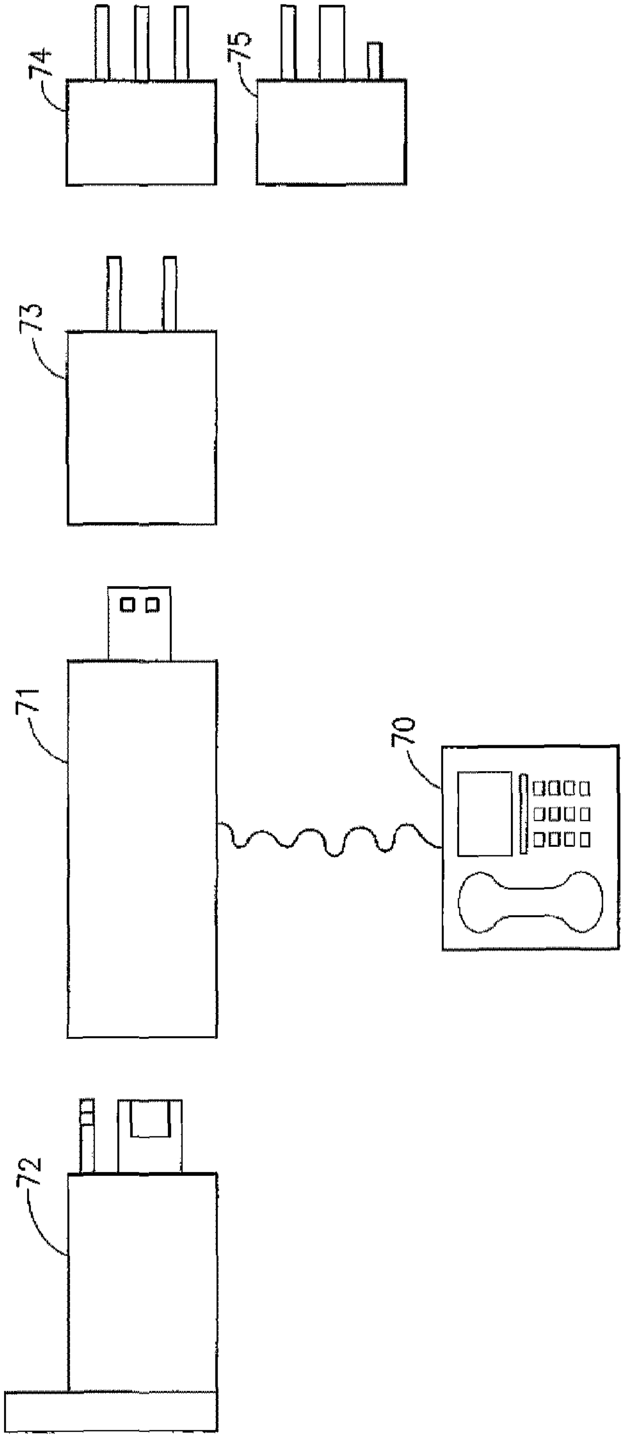

FIG. 9

VOIP ANALOG TELEPHONE SYSTEM

BACKGROUND OF THE INVENTION

1. Field of the Invention

This invention relates to a telecommunications system for personal phones or residential users that enables Voice over Internet Protocol (VoIP) telephony and facsimile services, and more specifically to a multi-port VoIP telephone system that allows the user to gain access to telephone connectivity through the Internet and utilize an analog telephone handset by transmitting through a device that is connected to the Internet by using an USB (Universal Serial Bus) port of a computer already connected to the internet or by connecting directly to the Internet via an RJ 45 port (or Ethernet port) or an existing Wi-Fi network or any other way to get connected to the Broadband Internet such as Wireless 3G (Third Generation) Services or Bluetooth (the short range wireless connectivity standard).

2. Description of Related Art

Land line telephone systems that include telephone handsets with wiring that goes through a publicly switched telephone network (PSTN) with a central office for switching are well known in the prior art. The basic technology behind how these systems are delivered has not changed much since its inception. Besides the fact that each individual phone set must be wired to be connected directly to each other individual handset during the telephone communication, the circuit is connected between both of the handsets and through the central office switch board during the conversation.

Wireless telephony, which includes the use of wireless handsets and networks of cellular antennas, has increased immensely. This has allowed telephone users to connect to each other wirelessly from virtually any location that has access to a cellular network.

VoIP is a general term for a family of transmission technologies for delivery of voice communications over the Internet or other packet-switch networks. Other terms whose meaning is synonymous include IP telephony, Internet telephony, voice over broadband, broadband telephony, and broadband phone, all of which are used when network connectivity is available over broadband internet access. VoIP systems typically interface with traditional PSTN, allowing for transparent telephone communications world wide.

Typically, phones using a VoIP service can work from almost anywhere when connected to a computer that is accessing the Internet. However, some IP networks can be inherently unreliable and not provide a mechanism to ensure that data packets are delivered in sequential order. This can cause problems such as mitigating latency and jitter. Other problems can arise in channel routing VoIP traffic through firewalls and address translators.

In the last few years, VoIP services have begun to be marketed commercially. These services have become more feasible in large part because of the increased availability of broadband internet access. Subscribers to these VoIP services are able to make and receive calls as they would over a traditional PSTN. Full service VoIP phone companies provide inbound and outbound calling with direct inbound dialing.

In one VoIP scenario, an analog telephone adapter (ATA) is connected to and accesses the Internet through a computer with a broadband Internet connection and an existing telephone jack in order to provide service that is very similar to traditional PSTN. This service is typically offered by broadband internet service providers such as cable companies and telephone companies as a cheaper flat rate telephone service.

Another VoIP scenario involves using the signaling protocol Session Initiation Protocol (SIP). SIP is widely used for setting up and tearing down multimedia communication sessions such as voice and video calls over the internet. SIP can be used for creating, modifying, and terminating two party or multi-party sessions consisting of one or more media streams. A motivating goal for SIP was to provide a signaling and call set up protocol for IP based communications that can support a superset of the call processing functions and features present in the PSTN. It is designed to enable the construction of and various functionalities within network elements designated proxy servers and user agents that permit familiar telephone like operations such as dialing a number, causing a phone to ring, hearing ring back tones, or busy signal.

A primary limitation of existing VoIP systems is that they must use a computer in order to establish the requisite connection to the Internet.

What is needed is a VoIP analog telephone system for personal phones and residential users that allows the user to gain access to telephone connectivity by transmitting through the USB port of a computer or other device that is connected to the Internet or by connecting directly to the Internet via an RJ 45 port or an existing Wi-Fi network.

SUMMARY OF THE INVENTION

A multi-port VoIP analog telephone system for connecting personal phones and residential users that includes telephony and facsimile services comprising a conventional telephone or facsimile machine which includes a telephone jack and an ATA device that includes an RJ 45 port and at least one USB port and is connected to the telephone jack. The ATA device can be connected to a computer, a broadband modem through a RJ 45 port or a Wi-Fi router, allowing it to connect to the internet.

In its most basic setup, the system comprises the traditional analog telephone or facsimile machine connected to an ATA. The ATA is powered through its USB port either though a connection to a computer or through power adapter. The ATA can access the Internet directly through an RJ 45 port built in or indirectly by connecting through the ATA's USB port to a computer that is connected to the Internet or a device with access to the Internet through a cell phone network.

In a more advanced setup, the ATA hardware can be supplemented so that the ATA can access to the Internet wirelessly through a Wi-Fi network (or WiMax, or other standard wireless Internet networks) that is locally available or by a Bluetooth wireless connection to a computer already connected to the Internet.

The basic platform for the system includes a central processor, a storage medium, a memory source, a network interface card (NIC), a USB pot, an Internet input, a RJ 11 port (or any telephone port), and a reset switch which is included with an LED. The USB port can be used to input a power source, an Internet connection, or both. CODEC and SLIC circuitry is connected to the processor. The platform also includes an RJ 45 connector and RJ 11.

The user can gain access to telephone connectivity either through the USB port of any computer or cell phone like devices with Internet access, through an RJ 45 port connected to a switch, modem, or router without the need of a computer, or via a built-in Wi-Fi receiver without the need for a computer connection. The wireless connection through cell phone like devices can be through a GSN, EVDO, CODMA, and/or WIMAX network or other wireless networks.

The system also has an option for onboard dialers, ringtones, ring light, port inter phase for normal and/or Bluetooth auto input/output that completely eliminates the need for an external analog telephone device if the user so desires.

The ATA uses a SIP protocol hosted locally to provide the telephony functionality. The telephone system includes normal features such as call hold, call transfer with or without consultation, call waiting, three party conference, call forwarding, do not disturb, speed dial, repeat dial on busy, caller ID number and name, caller ID block, anonymous call rejection, configurable country tones, distinctive ring, hot line, call hunting between extension, speed dial of ten numbers and address, message wait indication, visual message waiting indication, configurable hook flash, adaptive jitter buffer, facsimile (transparent and facsimile relay), 411 information, and advanced voice security features such as RTP.

The system itself is plug-in-play and may have a CD that will help to install drivers on the computer connected to the Internet. The multi-port functional approach is also plug-in-play. The telephone functionality is auto configured and the ATA will take the user configuration from the network. The user sets the user account from a web page. The ATA can be identified by its MAC address and/or a serial number that can be electronically webbed.

It is an object of this invention to provide a VoIP analog telephone system that can be connected to the Internet either directly or indirectly, with the ability to use several means of connecting to establish telephone communications.

It is another object of this invention to provide a VoIP telephone system for personal telephone use that allows for connection to a computer through the USB port wherein the computer does not need an SIP application in order to allow clean computer sharing.

It is another object of this invention to provide a VoIP telephone system that provides unlimited calls to fixed phones throughout the United States, prepaid premium phone features, and VoIP service with any fixed phone, all while using an analog telephone headset.

In accordance with these and other objects which will become apparent hereinafter, the instant invention will now be described with particular reference to the accompanying drawings.

BRIEF DESCRIPTION OF THE DRAWINGS

FIG. **1** shows a perspective view of the present invention.

FIG. **2** shows a block diagram of the connections used in the present invention.

FIG. **3** shows a block diagram of the connections used in the present invention.

FIG. **4** shows a top plan view of the connections used in the present invention.

FIG. **5** shows a schematic diagram of the preselt invention using a USB connection to a computer.

FIG. **6** shows a schematic diagram of the present invention using an Ethernet connection.

FIG. **7** shows a schematic diagram of the present invention using a Wi-Fi connection.

FIG. **8** shows a schematic diagram of the present invention using a USB connection to a cell phone.

FIG. **9** shows a schematic exploded diagram of the present invention with power connector adapters and power adapters

DETAILED DESCRIPTION

Referring now to the drawings and, in particular, FIGS. **1** through **3** the heart of the present invention is the ATA **10**, which is a rigid device with a tall end **11** and a short end **20**. The tall end **11** houses several of the ports that are needed to enable the numerous functions of the invention. An LED light **12** provides a visual display of the current power and operational state of the ATA **10**. The reset button **17**, when depressed by a user, shuts down and then immediately restarts the ATA **10**. Two USB ports **13**, **14** perform the function of providing data input/output as well as power input to the device. An Ethernet port **15** allows an Ethernet cord to be directly connected to the ATA **10** so that the invention can be used without a computer with Internet access. The telephone jack **16** is where the ATA **10** can receive a connection from an analog telephone handset.

The short end **20** of the invention contains a Wi-Fi adapter port **23**. In order to enable the ATA **10** to employ a Wi-Fi Internet connection to utilize VoIP service, a Wi-Fi adapter **24** must be inserted into the Wi-Fi adapter port **23**. When the Wi-Fi adapter **24** is fully engaged with the Wi-Fi adapter port **23**, the ATA will search for available Wi-Fi networks and connect to an available Wi-Fi network.

Referring now to FIG. **4**, the control circuitry **25** in the ATA **10** contain several key components, all of which is mounted on to a platform. The heart of the circuitry components is the central processor **25**. The ATA **10** also requires a random access memory component, an NIC component, and a storage medium component. In addition, the storage medium will contain the necessary software to perform the basic VoIP operations, including CODEC, SLIC, and SIP. Each of these components connect work through the processor and the various ports depending upon a particular input from the Internet and output to the Internet that will be achieved from the physical connection to an analog telephone handset.

Referring now to FIG. **5**, the basic telephone VoIP system is shown that includes an analog telephone handset **30** as one would find in the conventional residence or even commercially. The analog telephone handset **30** is connected to the ATA **31** through the ATA's **31** telephone port (RJ 11 or compatible). The ATA **31** is shown connected to a computer **32** through a USB cord that is connected to the computer **32** and to the USB port on the ATA **31**. The computer **32** is shown wired to a modem **33** (or router, modem/router combination device and/or a switch), which the computer is using to obtain access to the Internet. The ATA **31** receives power and accesses the Internet through the computer's **32** existing power supply and Internet access and is able to provide VoIP service through the computer's **32** Internet connection. When the VoIP system is configured in this way, a user is able to place and receive telephone calls nationwide without the analog telephone headset **30** being wired through a PSTN.

Referring now to FIG. **6**, the VoIP system that does not require a computer is shown that includes a basic analog telephone handset **40**. The analog telephone handset **40** is connected to the ATA **41** through the ATA's **41** telephone port (RJ 11 or compatible). The ATA **41** is shown connected to a USB electric plug adapter **42** through a USB cord that is plugged into one of the ATA's **41** USB ports. The USB electric plug adapter **42** allows the ATA **41** to receive electrical power without a computer connection. The ATA **41** is also shown connected directly to a modem **43** (or router, modem/router combination device and/or a switch) with a Ethernet cord (RJ 45 or compatible) plugged into its Ethernet port. This allows the ATA **41** to access the Internet through the modem **43** without a computer connection. The ATA **41** is able to utilize a direct connection to the Internet through the ATA's **41** NIC component, which is similar to the NIC component found in computers. When the VoIP system is configured in this way, a user is able to place and receive telephone calls nationwide without the analog telephone handset **40** being wired through a PSTN and even without a wired connection to a computer.

Referring now to FIG. **7**, the VoIP system that does not require a computer is shown that includes a basic analog telephone handset **50**. The analog telephone handset **50** is connected to the ATA **51** through the ATA's **51** telephone port (RJ 11 or compatible). The ATA **51** is shown connected to a USB electric plug adapter **52** through a USB cord that is plugged into one of the ATA's **51** USB ports. The USB electric plug adapter **52** allows the ATA **51** to receive electrical power without a computer connection. The ATA **51** is also shown exchanging wireless signals with a wireless router **53**. This facilitates the ATA **51** to access the Internet wirelessly through the wireless router **53** without a computer connection or even a wired connection to a modem, router, modem/router combination device and/or a switch. The ATA **51** is able to connect to the wireless signal through the ATA's **51** Wi-Fi adapter and the ATA **51** utilizes the connection to the Internet through the ATA's **51** NIC component, which is similar to the NIC component found in computers. When the VoIP system is configured in this way, a user is able to place and receive telephone calls nationwide without the analog telephone handset **50** being wired through a PSTN and even without the a wired connection to a computer or a modem.

Referring now to FIG. **8**, the VoIP system that does not require a computer is shown that includes a basic analog telephone handset **60**. The analog telephone handset **60** is connected to the ATA **61** through the ATA's **61** telephone port (RJ 11 or compatible). The ATA **61** is shown connected to a USB electric plug adapter **62** through a USB cord that is plugged into one of the ATA's **61** USB ports. The USB electric plug adapter **62** allows the ATA **61** to receive electrical power without a computer connection. The ATA **61** is also shown connected to a cell phone **63** through a USB cord that is plugged into one of the ATA's **61** USB ports. When configured in this manner, the ATA **61** can access the Internet through the cell phone's **63** Internet connection. Generally, it is through a cell phone's **63** connection to the cell phone tower **64**, whether the connection is of a GSM, CDMA, or EVDO standard, that the cell phone is able to obtain access to the Internet. However, the ATA **61** can also access the Internet through the cell phone **63** if the cell phone is connecting to the Internet through an available Wi-Fi or WIMAX signal.

Either way, this configuration provides the most flexibility in terms of location and facilitates the ATA **61** to access the Internet wirelessly cell phone **63** without a computer connection, a wired connection to a modem, router, modem/router combination device and/or a switch, or even a nearby Wi-Fi signal. When the VoIP system is configured in this way, a user is able to place and receive telephone calls nationwide without the analog telephone handset **60** being wired through a PSTN and even without the a wired connection to a computer or a modem, or even a WLAN nearby.

Referring now to FIG. **9** the system is shown set up to have the analog phone **70** connected to ATA **71** to include the WI-FI device **72** and a series of power adapters **73**, **74**, and **75** which are power connector adapters.

The instant invention has been shown and described herein in what is considered to be the most practical and preferred embodiment. It is recognized, however, that departures may be made therefrom within the scope of the invention and that obvious modifications will occur to a person skilled in the art.

What is claimed is:

1. A Voice over Internet Protocol (VoIP) telephone system that enables VoIP telephony and facsimile services allowing a user to gain access to telephone connectivity between an analog handset telephone and the internet, said system having multiple separate and independent internet access connections for connecting to the internet, each separate internet connection selectable by the user comprising:

an analog telephone for transmitting and receiving sound;

an analog telephone adapter (ATA) comprising a rigid housing, said housing containing a central processor, a non-transitory storage medium, a memory source, a network interface card (NIC), said ATA housing having at least one USB port, an Internet input, and a telephone port;

said analog telephone connected to said ATA telephone port for transmission and receipt of electronic signals from the ATA;

said ATA being configured to optionally be connected by a user to either a first internet access connection or a second different internet access connection or third different internet access connection and to a switched telephone network through the internet such that it can transmit and receive telephone calls;

said system having said first internet access connection including said ATA connected to a computer, a USB cord connected to said computer and to said USB port in said analog telephone adapter, a modem connected to said computer, and said modem connected to said internet;

said system having said second different internet access connection including said ATA connected to a USB electronic plug adapter, a USB plug cord connected to said USB plug adapter and said analog telephone adapter (ATA) USB port, an Ethernet cord, a router connected directly or indirectly to said Ethernet cord, said analog telephone adapter connected to said Ethernet cord, said modem connected to said internet, said analog telephone adapter powered by said USB plug adapter; and

said system having said third different internet access connection including said ATA connected to a wireless router connected to the internet, Wi-Fi adapter connected to said analog telephone adapter including the analog telephone adapter NIC component, a USB electric plug adapter connected to said analog telephone adapter to provide power; and

whereby a user of said analog telephone can call other telephone handset users over the internet using said first internet access connection or said second internet access connection or said third internet access connection using said ATA.

2. A VoIP system as in claim **1**, including:

a fourth internet access connection;

said system fourth internet access connection including a cell phone connected to the internet, a USB cord, analog telephone adapter connected to said cell phone with said USB cord, a USB electric plug adapter connected to said analog telephone adapter.

3. A Voice over Internet Protocol (VoIP) telephone system that enables VoIP telephony and facsimile services allowing a user to gain access to telephone connectivity between an analog handset telephone and the internet, said system having multiple separate and independent internet access connections for connecting to the internet, each separate internet connection selectable by the user comprising:

an analog telephone for transmitting and receiving sound;

an analog telephone adapter (ATA) comprising a rigid housing, said housing containing a central processor, a non-transitory storage medium, a memory source, a network interface card (NIC), said ATA housing having at least one USB port, an Internet input, and a telephone port;

said analog telephone connected to said ATA telephone port for transmission and receipt of electronic signals from the ATA;

said ATA being configured to optionally be connected by a user to either a first internet access connection or a second different internet access connection and to a switched telephone network through the internet such that it can transmit and receive telephone calls from other telephone handsets;

said system having said first internet access connection including said ATA connected to a computer, a USB cord connected to said computer and to said USB port in said analog telephone adapter, a modem connected to said computer, and said modem connected to said internet;

said system having said second different internet access connection including said ATA connected to a USB electronic plug adapter, a USB plug cord connected to said USB plug adapter and said analog telephone adapter (ATA) USB port, an Ethernet cord, a router connected directly or indirectly to said Ethernet cord, said analog telephone adapter connected to said Ethernet cord, said modem connected to said internet, said analog telephone adapter powered by said USB plug adapter; and

whereby a user of said analog telephone can call other telephone handset users over the internet using said first internet access connection or said second internet access connection using said ATA.

* * * * *

EXHIBIT C

US 20090141708A1

(19) **United States**
(12) **Patent Application Publication** (10) **Pub. No.: US 2009/0141708 A1**
Rodriguez et al. (43) **Pub. Date: Jun. 4, 2009**

(54) **VOIP ANALOG TELEPHONE SYSTEM**

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(21) Appl. No.: **12/366,851**

(22) Filed: **Feb. 6, 2009**

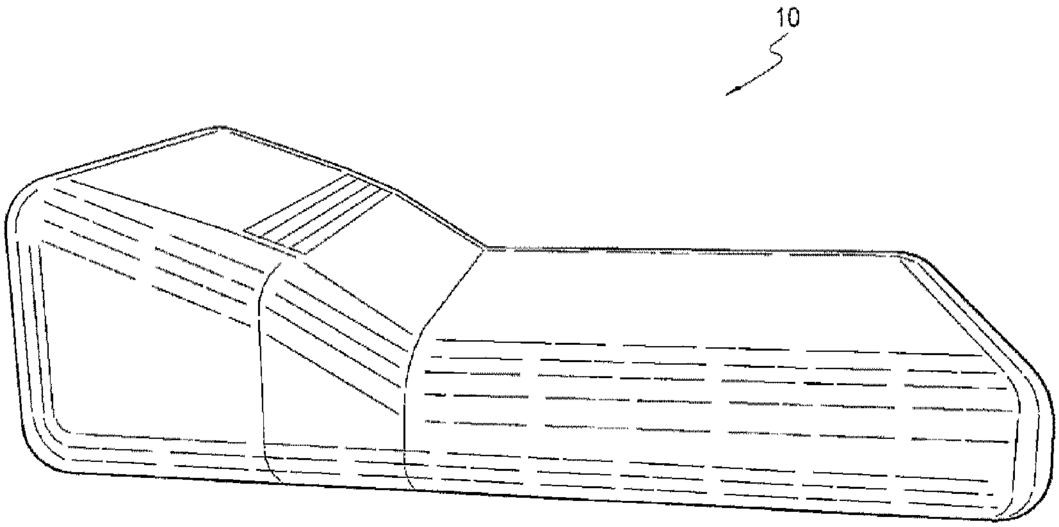
Publication Classification

(51) **Int. Cl.**
H04L 12/66 (2006.01)

(52) **U.S. Cl.** **370/352**

(57) **ABSTRACT**

A multi-port VoIP telecommunications system that allows the user to gain access to telephone connectivity through the Internet by connecting directly to the Internet or by connecting to the Internet through the existing Internet connection of a computer or cell phone device.



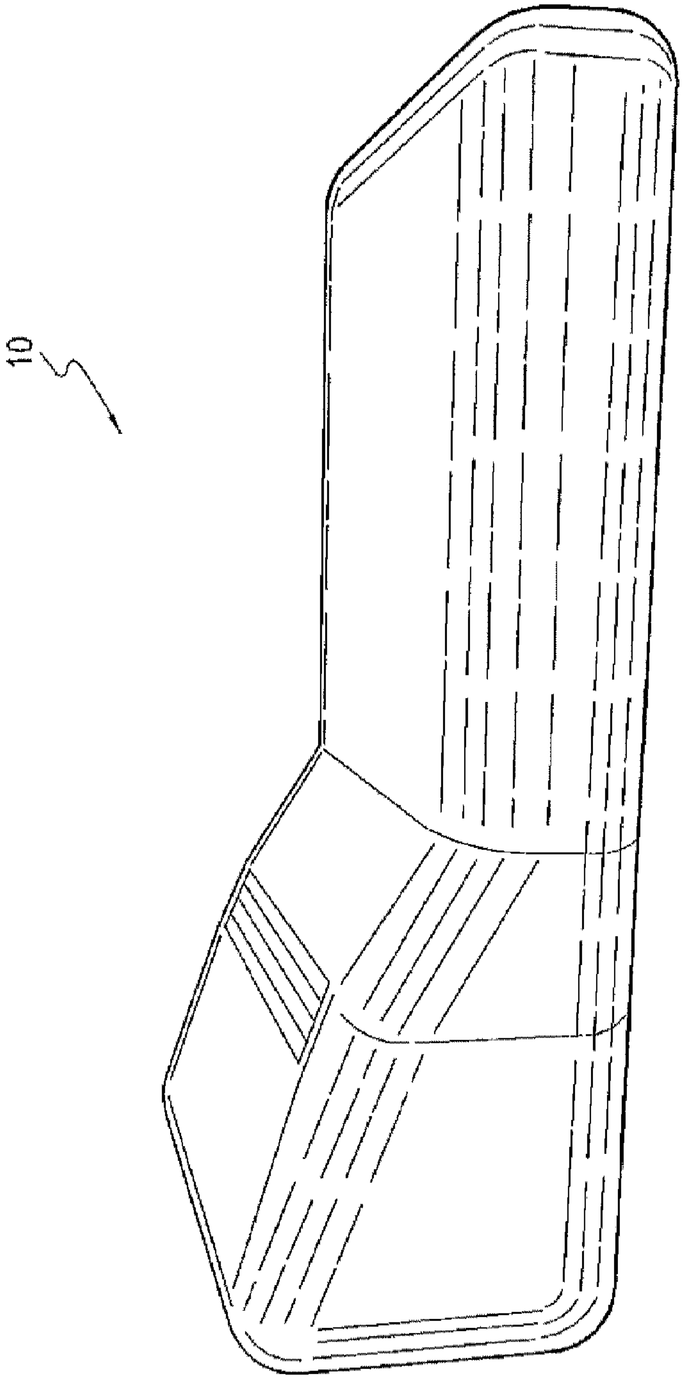


FIG. 1

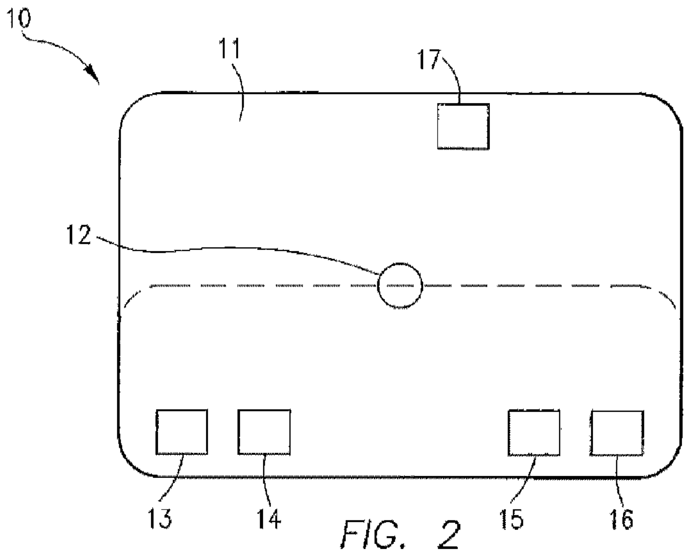


FIG. 2

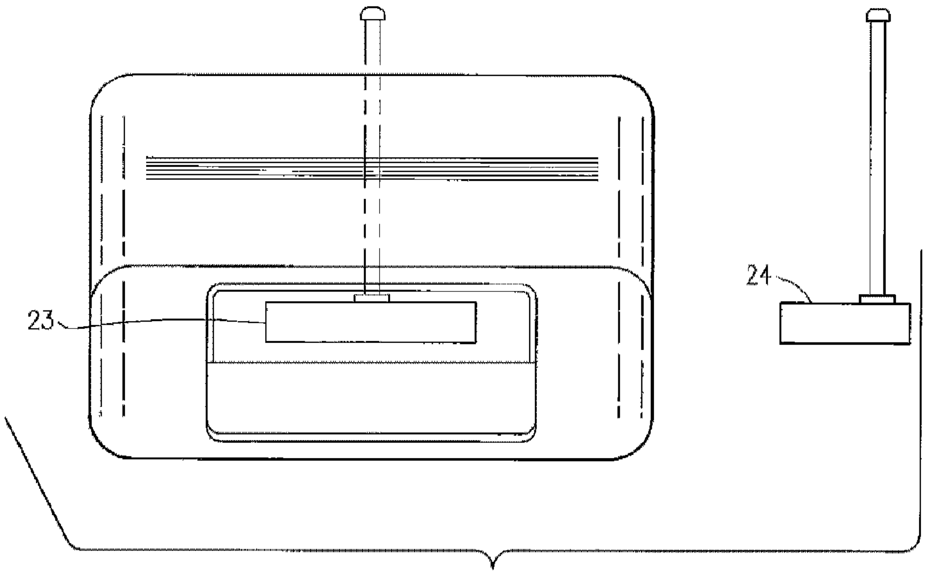


FIG. 3

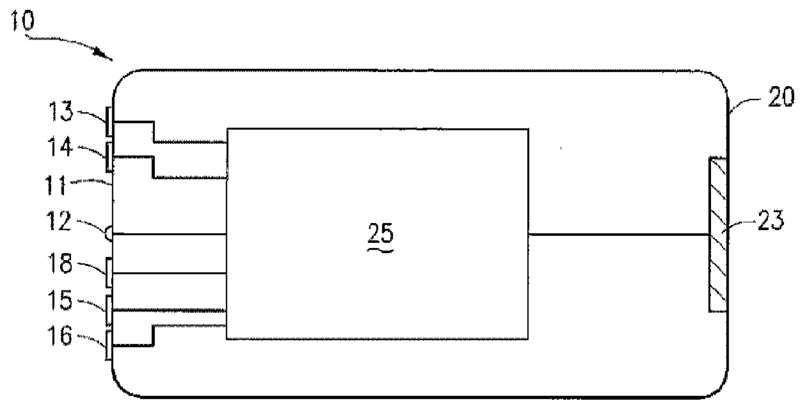

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FIG. 4

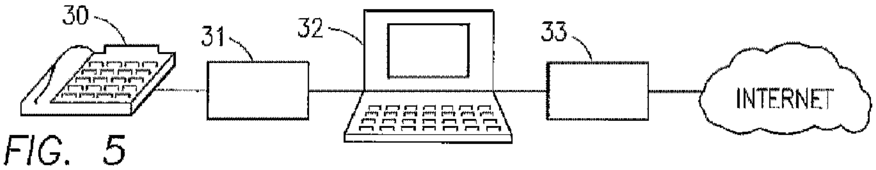
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FIG. 5

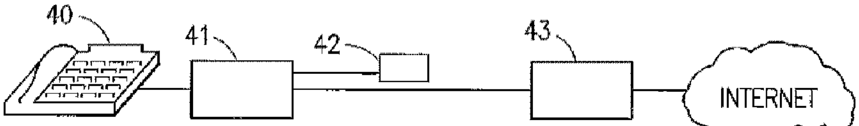
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FIG. 6

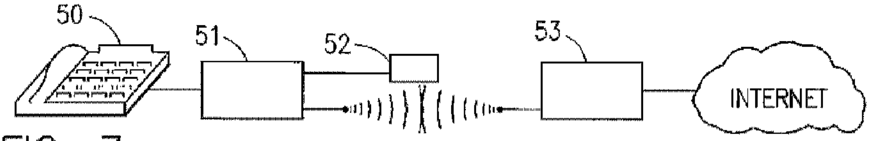
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FIG. 7

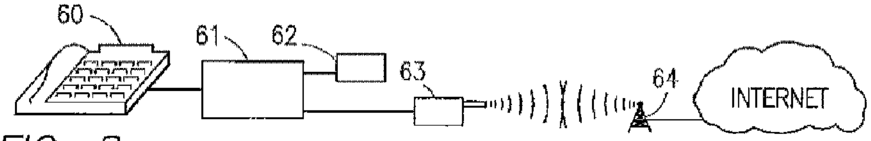
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FIG. 8

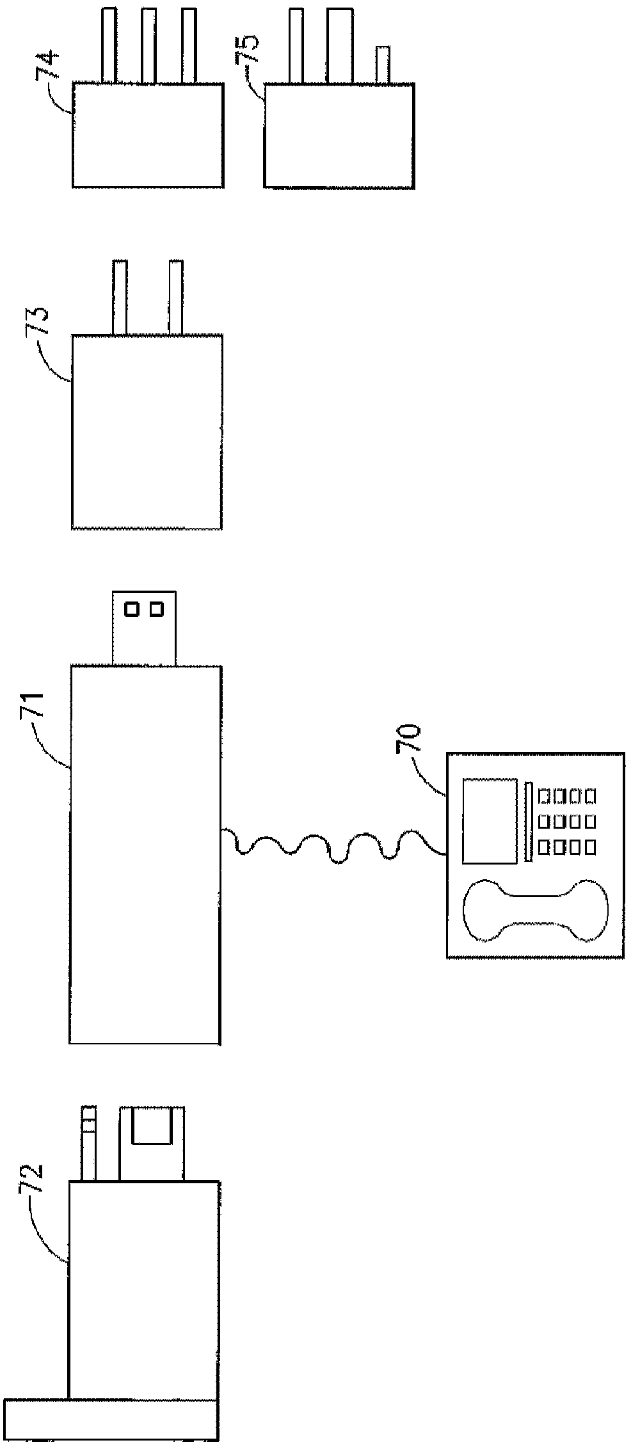

FIG. 9

VOIP ANALOG TELEPHONE SYSTEM

BACKGROUND OF THE INVENTION

[0001] 1. Field of the Invention

[0002] This invention relates to a telecommunications system for personal phones or residential users that enables Voice over Internet Protocol (VoIP) telephony and facsimile services, and more specifically to a multi-port VoIP telephone system that allows the user to gain access to telephone connectivity through the Internet and utilize an analog telephone handset by transmitting through a device that is connected to the Internet by using an USB (Universal Serial Bus) port of a computer already connected to the internet or by connecting directly to the Internet via an RJ 45 port (or Ethernet port) or an existing Wi-Fi network or any other way to get connected to the Broadband Internet such as Wireless 3G (Third Generation) Services or Bluetooth (the short range wireless connectivity standard).

[0003] 2. Description of Related Art

[0004] Land line telephone systems that include telephone handsets with wiring that goes through a publicly switched telephone network (PSTN) with a central office for switching are well known in the prior art. The basic technology behind how these systems are delivered has not changed much since its inception. Besides the fact that each individual phone set must be wired to be connected directly to each other individual handset during the telephone communication, the circuit is open between both of the handsets and through the central office switchboard during the conversation.

[0005] Wireless telephony, which includes the use of wireless handsets and networks of cellular antennas, has increased immensely. This has allowed telephone users to connect to each other wirelessly from virtually any location that has access to a cellular network.

[0006] VoIP is a general term for a family of transmission technologies for delivery of voice communications over the Internet or other packet-switch networks. Other terms whose meaning is synonymous include IP telephony, Internet telephony, voice over broadband, broadband telephony, and broadband phone, all of which are used when network connectivity is available over broadband internet access. VoIP systems typically interface with traditional PSTN, allowing for transparent telephone communications world wide.

[0007] Typically, phones using a VoIP service can work from almost anywhere when connected to a computer that is accessing the Internet. However, some IP networks can be inherently unreliable and not provide a mechanism to ensure that data packets are delivered in sequential order. This can cause problems such as mitigating latency and jitter. Other problems can arise in channel routing VoIP traffic through firewalls and address translators.

[0008] In the last few years, VoIP services have begun to be marketed commercially. These services have become more feasible in large part because of the increased availability of broadband internet access. Subscribers to these VoIP services are able to make and receive calls as they would over a traditional PSTN. Full service VoIP phone companies provide inbound and outbound calling with direct inbound dialing.

[0009] In one VoIP scenario, an analog telephone adapter (ATA) is connected to and accesses the Internet through a computer with a broadband Internet connection and an existing telephone jack in order to provide service that is very similar to traditional PSTN. This service is typically offered by broadband internet service providers such as cable companies and telephone companies as a cheaper flat rate telephone service.

[0010] Another VoIP scenario involves using the signaling protocol Session Initiation Protocol (SIP). SIP is widely used for setting up and tearing down multimedia communication sessions such as voice and video calls over the internet. SIP can be used for creating, modifying, and terminating two party or multi-party sessions consisting of one or more media streams. A motivating goal for SIP was to provide a signaling and call set up protocol for IP based communications that can support a superset of the call processing functions and features present in the PSTN. It is designed to enable the construction of and various functionalities within network elements designated proxy servers and user agents that permit familiar telephone like operations such as dialing a number, causing a phone to ring, hearing ring back tones, or busy signal.

[0011] A primary limitation of existing VoIP systems is that they must use a computer in order to establish the requisite connection to the Internet.

[0012] What is needed is a VoIP analog telephone system for personal phones and residential users that allows the user to gain access to telephone connectivity by transmitting through the USB port of a computer or other device that is connected to the Internet or by connecting directly to the Internet via an RJ 45 port or an existing Wi-Fi network.

SUMMARY OF THE INVENTION

[0013] A multi-port VoIP analog telephone system for connecting personal phones and residential users that includes telephony and facsimile services comprising a conventional telephone or facsimile machine which includes a telephone jack and an ATA device that includes an RJ 45 port and at least one USB port and is connected to the telephone jack. The ATA device can be connected to a computer, a broadband modem through a RJ 45 port or a Wi-Fi router, allowing it to connect to the internet.

[0014] In its most basic setup, the system comprises the traditional analog telephone or facsimile machine connected to an ATA. The ATA is powered through its USB port either though a connection to a computer or through power adapter. The ATA can access the Internet directly through an RJ 45 port built in or indirectly by connecting through the ATA's USB port to a computer that is connected to the Internet or a device with access to the Internet through a cell phone network.

[0015] In a more advanced setup, the ATA hardware can be supplemented so that the ATA can access to the Internet wirelessly through a Wi-Fi network (or WiMax, or other standard wireless Internet networks) that is locally available or by a Bluetooth wireless connection to a computer already connected to the Internet.

[0016] The basic platform for the system includes a central processor, a storage medium, a memory source, a network interface card (NIC), a USB pot, an Internet input, a RJ 11 port (or any telephone port), and a reset switch which is included with an LED. The USB port can be used to input a power source, an Internet connection, or both. CODEC and SLIC circuitry is connected to the processor. The platform also includes an RJ 45 connector and RJ 11.

[0017] The user can gain access to telephone connectivity either through the USB port of any computer or cell phone like devices with Internet access, through an RJ 45 port connected to a switch, modem, or router without the need of a computer, or via a built-in Wi-Fi receiver without the need for a computer connection. The wireless connection through cell phone like devices can be through a GSN, EVDO, CODMA, and/or WIMAX network.

[0018] The system also has an option for onboard dialers, ringtones, ring light, port inter phase for normal and/or Bluetooth auto input/output that completely eliminates the need for an external analog telephone device if the user so desires.

[0019] The ATA uses a SIP protocol hosted locally to provide the telephony functionality. The telephone system includes normal features such as call hold, call transfer with or without consultation, call waiting, three party conference, call forwarding, do not disturb, speed dial, repeat dial on busy, caller ID number and name, caller ID block, anonymous call rejection, configurable country tones, distinctive ring, hot line, call hunting between extension, speed dial of ten numbers and address, message wait indication, visual message waiting indication, configurable hook flash, adaptive jitter buffer, facsimile (transparent and facsimile relay), **411** information, and advanced voice security features such as RTP.

[0020] The system itself is plug-in-play and may have a CD that will help to install drivers on the computer connected to the Internet. The multi-port functional approach is also plug-in-play. The telephone functionality is auto configured and the ATA will take the user configuration from the network. The user sets the user account from a web page. The ATA can be identified by its MAC address and/or a serial number that can be electronically webbed.

[0021] It is an object of this invention to provide a VoIP analog telephone system that can be connected to the Internet either directly or indirectly, with the ability to use several means of connecting to establish telephone communications.

[0022] It is another object of this invention to provide a VoIP telephone system for personal telephone use that allows for connection to a computer through the USB port wherein the computer does not need an SIP application in order to allow clean computer sharing.

[0023] It is another object of this invention to provide a VoIP telephone system that provides unlimited calls to fixed phones throughout the United States, prepaid premium phone features, and VoIP service with any fixed phone, all while using an analog telephone headset.

[0024] In accordance with these and other objects which will become apparent hereinafter, the instant invention will now be described with particular reference to the accompanying drawings.

BRIEF DESCRIPTION OF THE DRAWINGS

[0025] FIG. **1** shows a perspective view of the present invention.

[0026] FIG. **2** shows a block diagram of the connections used in the present invention.

[0027] FIG. **3** shows a block diagram of the connections used in the present invention.

[0028] FIG. **4** shows a top plan view of the connections used in the present invention.

[0029] FIG. **5** shows a schematic diagram of the preselt invention using a USB connection to a computer.

[0030] FIG. **6** shows a schematic diagram of the present invention using an Ethernet connection.

[0031] FIG. **7** shows a schematic diagram of the present invention using a Wi-Fi connection.

[0032] FIG. **8** shows a schematic diagram of the present invention using a USB connection to a cell phone.

[0033] FIG. **9** shows a schematic exploded diagram of the present invention with power connector adapters and power adapters

DETAILED DESCRIPTION

[0034] Referring now to the drawings and, in particular, FIGS. **1** through **3** the heart of the present invention is the ATA **10**, which is a rigid device with a tall end **11** and a short end **20**. The tall end **11** houses several of the ports that are needed to enable the numerous functions of the invention. An LED light **12** provides a visual display of the current power and operational state of the ATA **10**. The reset button **17**, when depressed by a user, shuts down and then immediately restarts the ATA **10**. Two USB ports **13**, **14** perform the function of providing data input/output as well as power input to the device. An Ethernet port **15** allows an Ethernet cord to be directly connected to the ATA **10** so that the invention can be used without a computer with Internet access. The telephone jack **16** is where the ATA **10** can receive a connection from an analog telephone handset.

[0035] The short end **20** of the invention contains a Wi-Fi adapter port **23**. In order to enable the ATA **10** to employ a Wi-Fi Internet connection to utilize VoIP service, a Wi-Fi adapter **24** must be inserted into the Wi-Fi adapter port **23**. When the Wi-Fi adapter **24** is fully engaged with the Wi-Fi adapter port **23**, the ATA will search for available Wi-Fi networks and connect to an available Wi-Fi network.

[0036] Referring now to FIG. **4**, the control circuitry **25** in the ATA **10** contain several key components, all of which is mounted onto platform. The heart of the circuitry components is the central processor. The ATA **14** also requires a random access memory component, an NIC component, and a storage medium component. In addition, the storage medium will contain the necessary software to perform the basic VoIP operations, including CODEX, SLIC, and SIP. Each of these components connect work through the processor and the various ports depending upon a particular input from the Internet and output to the Internet that will be achieved from the physical connection to an analog telephone handset.

[0037] Referring now to FIG. **5**, the basic telephone VoIP system is shown that includes an analog telephone handset **30** as one would find in the conventional residence or even commercially. The analog telephone handset **30** is connected to the ATA **31** through the ATA's **31** telephone port (RJ 11 or compatible). The ATA **31** is shown connected to a computer **32** through a USB cord that is connected to the computer **32** and to the USB port on the ATA **31**. The computer **32** is shown wired a modem **33** (or router, modem/router combination device and/or a switch), which the computer is using to obtain access to the Internet. The ATA **31** receives power and accesses the Internet through the computer's **32** existing power supply and Internet access and is able to provide VoIP service through the computer's **32** Internet connection. When the VoIP system is configured in this way, a use is able to place and receive telephone calls nationwide without the analog telephone headset **30** being wired through a PSTN.

[0038] Referring now to FIG. **6**, the VoIP system that does not require a computer is shown that includes a basic analog telephone handset **40**. The analog telephone handset **40** is connected to the ATA **41** through the ATA's **41** telephone port (RJ 11 or compatible). The ATA **41** is shown connected to a USB electric plug adapter **42** through a USB cord that is plugged into one of the ATA's **41** USB ports. The USB electric plug adapter **42** allows the ATA **41** to receive electrical power without a computer connection. The ATA **41** is also shown connected directly to a modem **43** (or router, modem/router combination device and/or a switch) with a Ethernet cord (RJ 45 or compatible) plugged into its Ethernet port. This allows the ATA **41** to access the Internet through the modem **43** without a computer connection. The ATA **41** is able to utilize a direct connection to the Internet through the ATA's **41** NIC component, which is similar to the NIC component found in computers. When the VoIP system is configured in this way, a use is able to place and receive telephone calls nationwide without the analog telephone handset **40** being wired through a PSTN and even without the a wired connection to a computer.

[0039] Referring now to FIG. **7**, the VoIP system that does not require a computer is shown that includes a basic analog telephone handset **50**. The analog telephone handset **50** is connected to the ATA **51** through the ATA's **51** telephone port (RJ 11 or compatible). The ATA **51** is shown connected to a USB electric plug adapter **52** through a USB cord that is plugged into one of the ATA's **51** USB ports. The USB electric plug adapter **52** allows the ATA **51** to receive electrical power without a computer connection. The ATA **51** is also shown exchanging wireless signals with a wireless router **53**. This facilitates the ATA **51** to access the Internet wirelessly through the wireless router **53** without a computer connection or even a wired connection to a modem, router, modem/router combination device and/or a switch. The ATA **51** is able to connect to the wireless signal through the ATA's **51** Wi-Fi adapter and the ATA **51** utilizes the connection to the Internet through the ATA's **51** NIC component, which is similar to the NIC component found in computers. When the VoIP system is configured in this way, a use is able to place and receive telephone calls nationwide without the analog telephone handset **50** being wired through a PSTN and even without the a wired connection to a computer or a modem.

[0040] Referring now to FIG. **8**, the VoIP system that does not require a computer is shown that includes a basic analog telephone handset **60**. The analog telephone handset **60** is connected to the ATA **61** through the ATA's **61** telephone port (RJ 11 or compatible). The ATA **61** is shown connected to a USB electric plug adapter **62** through a USB cord that is plugged into one of the ATA's **61** USB ports. The USB electric plug adapter **62** allows the ATA **61** to receive electrical power without a computer connection. The ATA **61** is also shown connected to a cell phone **63** through a USB cord that is plugged into one of the ATA's **61** USB ports. When configured in this manner, the ATA **61** can access the Internet through the cell phone's **63** Internet connection. Generally, it is through a cell phone's **63** connection to the cell phone tower **64**, whether the connection is of a GSM, CDMA, or EVDO standard, that the cell phone is able to obtain access to the Internet. However, the ATA **61** can also access the Internet through the cell phone **63** if the cell phone is connecting to the Internet through an available Wi-Fi or WIMAX signal.

[0041] Either way, this configuration provides the most flexibility in terms of location and facilitates the ATA **61** to access the Internet wirelessly cell phone **63** without a computer connection, a wired connection to a modem, router, modem/router combination device and/or a switch, or even a nearby Wi-Fi signal. When the VoIP system is configured in this way, a use is able to place and receive telephone calls nationwide without the analog telephone handset **60** being wired through a PSTN and even without the a wired connection to a computer or a modem, or even a WLAN nearby.

[0042] Referring now to FIG. **9** the system is shown set up to have the analog phone **70** connected to ATA **71** to include the WI-FI device **72** and a series of power adapters **73**, **74**, and **75** which are power connector adapters.

[0043] The instant invention has been shown and described herein in what is considered to be the most practical and preferred embodiment. It is recognized, however, that departures may be made therefrom within the scope of the invention and that obvious modifications will occur to a person skilled in the art.

What is claimed is:

1. A multiport Voice over Internet Protocol (VoIP) system for telecommunications, said system comprising:
- an analog telephone for transmitting and receiving sound;
- an analog telephone adapter (ATA) comprising a rigid body, a central processor, a storage medium, a memory source, a network interface card (NIC), one or more USB ports, an Internet input, and a telephone port;
- said analog telephone connected to said telephone port in for transmission and receipt electronic signals from the ATA;
- said NIC being coupled to the Internet input; and
- whereby said analog telephone handset communications are performed through the Internet.

2. A VoIP system as in claim **1**, wherein said Internet input is an Ethernet port, allowing the NIC to facilitate the transmission and receipt of Internet Protocol signals.

3. A VoIP system as in claim **1**, wherein said Internet input is a Wi-Fi receivers allowing the NIC to facilitate the transmission and receipt of Internet Protocol signals wirelessly.

4. A VoIP system as in claim **1**, wherein a USB electric plug adapter is connected to the ATA through the USB port.

5. A VoIP system as in claim **1**, wherein the storage medium contains a Session Initiation Protocol that is accessible by the central processor.

6. A VoIP system as in claim **1**, wherein the analog telephone is a facsimile machine.

7. A method of initiating and sending a VoIP communication, said method comprising:
- providing a physical and electrical connection between an analog telephone handset and an analog telephone adapter (ATA);
- providing a physical and electrical connection between said ATA and a power source;
- providing an electrical connection between said ATA and the Internet;
- causing said telecommunications device to transmit VoIP data through the ATA;
- providing analog telephone communications between analog telephone handsets over the Internet.

8. The method of claim **7**, wherein the power source is a USB connection to an electric plug adapter.

9. The method of claim **7**, wherein the ATA connects directly to the Internet through a wired Ethernet connection or a wireless connection on a Wi-Fi network.

10. A method of initiating and sending a VoIP communication, said method comprising:
- providing a connection between a telecommunications device and an analog telephone adapter (ATA);
- providing a connection between said ATA and a power source;

providing an indirect connection between said ATA and the Internet, wherein the ATA connects though a computer's existing Internet connection or though a device with access to a wireless cell phone network; and

causing said telecommunications device to transmit VoIP data through the ATA.

11. The method of claim **10**, wherein the power source is a USB connection to a computer.

12. The method of claim **10**, wherein the power source is a USB connection to an electric plug adapter.

13. The method of claim **10**, wherein the ATA connects indirectly to the Internet though a computer's existing Internet connection or a device with access to a wireless cell phone network.

* * * * *

CERTIFICATE OF SERVICE

I, Darryl M. Woo, certify that on this, the 8th day of July, 2016, I caused the foregoing Corrected Principal Brief for Defendants-Appellants magicJack VocalTec Ltd., magicJack LP, and magicJack Holding Corporation f/k/a YMAX Holdings Corporation to be filed with the Clerk of the United States Court of Appeals for the Federal Circuit via the CM/ECF system, which will send notice of such filing to all registered CM/ECF users, including opposing counsel of record in this appeal:

Matthew G. McAndrews NIRO McANDREWS, LLC 200 West Madison Street, Suite 2040 Chicago, IL 60606	**[X] By email**: mmcandrews@niro-mcandrews.com

Dated: July 8, 2016

Respectfully submitted,

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Respectfully submitted,

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